FINANCING OF SMALL AND MEDIUM SIZED FARMS IN UTTAR PRADESH BY NATIONALISED BANKS SINCE 1970

ABSTRACT

THESIS SUBMITTED FOR THE DEGREE OF

Doctor of Philosophy

IN

COMMERCE

BY

RIAZUL HASAN SIDDIQUI

Under the supervision of

Dr. A. FAROOQ KHAN

M. Com., D. B. A., M.B.A., (Aston, Birmingham), Ph. D

DEPARTMENT OF COMMERCE
ALIGARH MUSLIM UNIVERSITY
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1987

ABSTRACT OF THE STUDY

1. Title of the Study	:	Financing of Small and Medium Sized Farms in Uttar Pradesh by Nationalised Banks since 1970.
2. Research Scholar	:	Riazul Hasan Siddiqui
3. Research Supervisor	:	Dr. A. Farooq Khan, Reader, Department of Commerce, Aligarh Muslim University, Aligarh
4. Place of the Study	:	Department of Commerce, Aligarh Muslim University, Aligarh.
5. Year of Submission	:	1987

SYNOPSIS

"Financing of Small and Medium Sized Farms in Uttar Pradesh by Nationalised Banks since 1970".

1. Introduction : Agriculture and the national economy, Nationalisation of Commercial Banks, Importance of Finance in Agriculture, Classification of Farms: marginal holdings, small and semi-medium holdings: medium sized holdings, large holdings, Importance and Objectives of the Study, Methodology, Implications of Research.

2. Role of Nationalised Banks in Financing Agriculture : Historical Perspective, Banking after Independence, Need for Bank Nationalisation, Objectives of Bank Nationalisation, Performance of Nationalised Banks, Nationalised Banks and Agricultural financing: Direct finance; Indirect finance; Group-wise distribution of advances; Regional Rural Banks; Disbursement by NABARD. Some problems regarding agricultural financing, Summary.

3. Financing of Small and Medium Sized Farms in U.P. Introduction, Land utilization Pattern in U.P., Size of Land Holdings in U.P. and their Distribution, Role of Credit in Farming, Need for Agricultural Credit, Pattern of Agricultural Financing in U.P. : Short-term agricultural

loans, Long-term agricultural loans. Performance of Lead Banks, Problems of Lead Banks, Problems in Financing Agriculture, Suggestions for making Commercial Banks lending more effective, Conclusion.

4. Impact of Credit Supplies on the Productivity of Farms (Survey results) : Introduction, Sample Unit, Changes in Cropping Pattern, Changes in the level of Productivity, Per-acre net income of sample farmers, Utilisation of Incremental Income by Borrower farmers, Conclusion.

5. Problems of Farmers (Survey Results) : Part I - General Problems : Natural Hazards: Floods, Drought, Frost, Outbreak of epidemics, Soil erosion, Usar, Hailstorm. Lack of Irrigation facilities, Inadequate input supply and improper use, Mechanisation, Lack of Credit Facilities, Land reforms and Consolidation of Holdings, Defective Marketing System and Storage Price Support. Part II - Specific Problems: Fin[illegible] and Discussion, Conclusion.

6. Conclusions and Suggestions

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ABSTRACT

Agriculture is the main occupation of the Indian people. The importance of agriculture in maintaining and sustaining the economic infrastructure of India can not be over stressed. India is primarily an agricultural country. The fact that seventy per cent of India's population is employed in agriculture and allied activities makes agriculture the backbone of Indian economy. Agriculture provides raw-materials to the industries. At present, about 50 per cent of our exports consist of agricultural accomodities.

Agriculture also brings about an increase in the Government's revenues. It provides the food for her 700 million people and 383 million livestock. Thus the significance of agriculture in our country arises from the fact that the development of agriculture is an essential condition for the development of the national economy.

It is in this background that the present study assumes special significance. The present study aims to examine the plight of small and medium-sized farmers who constitute the bulk of rural households. An attempt has been made to identify the needs and problems of

small farmers and to suggest measures to tackle these problems. The importance of the present study can not be over-emphasised in a country like India where about 70 per cent of the work force is engaged in agricultural and allied accupations.

We can not overlook the needs of rural development because it has its impact on the economic development of our country. If we want to achieve a notable progress on the rural front. The banking industry will have to come up on the forefront with new packages to farmers like high yielding varieties of crops, new fertilizer combination, plant protection devices, use of modern and efficient implements as well as measures for land reforms, credit and marketing facilities and reduce protection risks as well as price uncertainties. This is an uphill task for the banks with the advance technical know how, marketing and financial assistance.

Bank nationalisation was a land mark in the post-independence history of India. Banks in the begining were mainly oriented towards urban development and industrialisation of the country. Therefore, it was strongly felt that farming sector and small scale industries should be adequately financed through an expanded network of banking operations. Consequently, many leading banks were nationalised in July 1969 with a view to provide more credit facilities to agricultural sector to bring out rural development.

The government has introduced new programmes and policies for the development of agriculture. But it is unfortunate that the farmers are still destined to suffer due to certain impediments in the agricultural development. The present survey revealed that problems such as floods, droughts, hailstorm, frost, inadequate and untimely supply of farm inputs, lack of credit facilities, fragmentation of holdings, improper arrangements for storage and lack of marketing facilities and so on are the main barriers for farmers for developing their farms.

India is predominantly a land of small size farmers and tillers. It is, therefore, necessary that the small size land holders be brought out their centuries old poverty, illiteracy and stagnation. More facilities of agricultural credit should be extended to them by nationalised banks. In fact, there is a close relation between the development of Indian economy and Indian agriculture on the one hand and development of Indian agriculture and the development of small size farmers, on the other hand. Indian economy can not develop with out the development of Indian agriculture and Indian agriculture cannot develop without the upward mobility of small size farmers.

Objectives of the Study

The objectives of the present study are:

i) To examine the pattern of financing of small and medium sized farms by nationalised banks with reference to some selected diwtricts in U.P.;

ii) To assess the impact of credit supplies on the productivity of farms.

iii) To identify the problems faced by small farmers in getting finance from nationalised banks; and

iv) To suggest remedial measures to tackle the problems faced by small and medium farmers who form the majority of operational holdings in our country.

Apart from the main objectives of the thesis discuss above there were certain secondary objectives of this study which are given below:

i) to study the importance of agriculture in the national economy;

ii) to study the historical development of the banking industry in India, its structural set up, and to examine the performance of nationalised banks in financing agriculture including farm operations; and

iii) to examine the role of nationalised banks in financing agriculture in the context of high priority accorded to this sector by the government.

Methodology

The analysis of the pattern of financing of small and medium sized farms by nationalised banks in based on secondary data collected from reports, publications, bulletins of R.B.I. and nationalised banks. For the purpose of conducting a survey to find out the problems of some selected small and medium sized farms in Uttar Pradesh. We have prepared two different questionnaires to collect information from the borrower and non-borrower farmers.

Uttar Pradesh has been divided into three regions western, central and eastern. The six representative districts, namely, Saharanpur and Muzaffarnagar from Western region, Badaun and Aligarh from Central region, Basti and Faizabad from eastern region have been selected for the purpose of this study.

The list of 300 borrower farmers was collected from nationalised banks of sample districts by which they were financed. This sample unit has been further stratified into small, medium and large farmers in the ratio of 3:2:1 respectively. An equal number of non-borrower farmers has been selected randomly from the sample areas, thus, forming a total of 600 sample farmers. These farmers were asked questions with the help of two different questionnaires prepared separately for participant and non-participant farmers. The farmers thus selected were contacted personally and they were interviewed to find out the problems faced by them in getting finance from the branches of nationalised banks situated in their respective areas.

Importance of the Study

The suggestions made on the basis of present work, it is hoped, would be useful for the banks in restructuring their financial operations and to improve their lending practices towards the farmers. Not only the financial aspect is covered under the present study but also several non-financial factors like new technology, high yielding varieties, small irrigation, farm reforms have been briefly discussed and corrective measures have been suggested. Therefore, it is likely that if these corrective steps are taken by the banks at the right time, the small and medium sized farms will prosper at a comparatively faster rate.

The present study assumes special significance for it examines the plight of small farmers who constitute the bulk of holdings in U.P. The constraints faced by the small and medium-sized farmers must be looked into by the economic planners and policy makers in this country. To meet these challenges effectively the present study suggests strategies and policies to be pursued by nationalised banks for rural development.

It is hoped that the findings of this study will go a long way in revamping the financial systems of nationalised banks to streamline the flow of credit to small and medium sized farmers in Uttar Pradesh.

Summary

Agriculture in India occupies a place of prime importance in the economic life of the country. Modern agriculture requires a proper dose of high yielding varieties seeds, chemicals, fertilizers irrigation etc. The requirements of modern agriculture can not be met by the Indian farmers from their own savings. So there is an increasing demand for agricultural credit. The agricultural credit facilities play a catalytic role in bringing about a revolutionary change. A proper dose of farm credit introduces technological sophistication apart from giving a healthy, competitive and commercial turn to agricultural production.

The data show that much has been done in post-independent India with a view to uplift the small size and marginal size farmers and to provide necessary wherewithal to these sections of Indian society which form the bulk of its population. The nationalised banks have done well in meeting out the capital and current expenditure of farmers by providing them agricultural advances. However, much needs to be done to ameliorate the conditions of agriculturists if India is to emerge on the industrial and agricultural map of the world. These banks need to make intensive and extensive surveys of the credit needs across the length and breadth of U.P. in order to formulate appropriate plans and programmes for the upliftment of small size and marginal farmers. The survey data show that those farmers who utilised the bank facilities in obtaining loan for their agricultural purposes where found better off than those who did not utilise the bank facilities. Those who sought the help of the banks were able to develop their farms by the use of modern techniques.

The study concludes that although nationalised banks have played a significant role in providing agricultural credit but more needs to be done in this sphere. The regular and proper supply of credit can be instrumental in increasing the production and income per acre of borrower farmers. The survey data discover many obstacles that come in the way of farmers in getting loans from the nationalised banks. The nationalised banks should simplify their lending procedure and establish an expanded network of branches in the rural areas. These branches should have a rural orientation and cater to the needs of small farmers.

The focus of this study is financing pattern of small and medium sized farms in U.P. by nationalised banks. The study contains 6 chapters. Besides the first introductory chapter, five other chapters have been planned.

Chapter 2 describes the role of commercial banks in financing agriculture. Historical perspective, growth of nationalised banks and groupwise distribution of advances to agricultural sector are dealt with in this chapter.

Chapter 3 contains an analysis of the pattern of financing of small and medium sized farms in Uttar Pradesh by the nationalised banks.

Chapter 4 examines the impact of credit supplies on the productivity of farms in respect of changes in cropping pattern and per acre net income of farmers.

Chapter 5 identifies the general problems as well as specific problems of farmers. The data for specific problems is obtained with the help of questionnaires.

Chapter 6 contains the conclusions and suggestions of the study.

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Dr. A. Farooq Khan
D.B.A., M.B.A. (Birmingham)
Ph.D. Reader

DEPARTMENT OF COMMERCE
ALIGARH MUSLIM UNIVERSITY
ALIGARH-202001-INDIA
TEL.: 5761

October 15, 1987

CERTIFICATE

This is to certify that the Ph.D. thesis entitled "FINANCING OF SMALL AND MEDIUM SIZED FARMS IN U.P. BY NATIONALISED BANKS SINCE 1970", submitted by Mr. Riazul Hasan Siddiqui, has been completed under my supervision. This work in my opinion is suitable for submission for the award of Ph.D. degree in Commerce.

A. F. Khan

(DR. A. Farooq Khan)
Supervisor

Residence : 9 TEACH. Near M.M. HALL) A.M.U. ALIGARH-202001

PREFACE

Contemporary agriculture is becoming more and more capital intensive and it has become extremely difficult for the Indian farmers to meet out their requirements on their own. So there is a greater need for the mobilisation of savings and investments on the part of financial institutions. After the advent of nationalisation, banks have become the nucleus of our corporate financial life and they will have to play a vital role in the years to come.

An analysis of agricultural assistance programme in India brings out the fact that credit is not only insufficient but also inequitably distributed among people with a known bias towards affluent sections of farming community. Also there is an over-lapping of jurisdiction in view of the fact that different agencies are involved in the planning, administration and implementation of agricultural programmes. There is, therefore, a strong case for unification of various financial institutions to achieve coordination and effectively carter to the credit needs of under-priviledged sections of farmers.

There has been a gradual shift towards micro-economic planning and nowdays regional level planning is considered to be more suitable for the rapid socio-economic progress of the country. In view of the same, district level banking planning is widely carried out to foster balanced growth of various regions. This study is a humble presentation which examines the issues and pattern of financing of small and medium sized farms in U.P. by the nationalised banks and suggests measures for revamping the agricultural credit programmes for the benefit of farming community.

In the completion of this research work I feel highly indebted to my supervisor Dr. A. Farooq Khan, Department of Commerce, Aligarh Muslim University, Aligarh, who spared his valuable time and took keen interest in my work. His deep insight into the problems concerning farm financing provided me a clear perspective without which I could not have achieved my objective.

I am particularly grateful to the Dean and Chairman, Department of Commerce, Prof. Habibur Rehman for his help and assistance provided to me in the completion of this work. I place on record my deep sense of gratitude to him. Also I would like to thank Prof. Ishrat H. Farooqi, Prof. Samiuddin and other learned teachers of the Department of Commerce, A.M.U. Aligarh, who enlightened me with their views from time to time and for their valuable advice.

I must also thank Dr. J.P. Mishra, Agricultural Banking Department, S.B.I. Lucknow, Mr. Vinod Kumar, NABARD, Lucknow, Dr. B.N. Tiwari, Institutional Finance, Lucknow and Mr A.P. Chopra, R.B.I. New Delhi, for their help and cooperation during my visits to these institutions.

I am also thankful to all the respondents in the six selected districts of U.P. for their kind co-operation and quick responses during the field survey conducted by me. My thanks are also due to the staff of various banks of the six selected districts who were co-operative and provided me the necessary information and relevant data for this work.

I am thankful to the staff of the Maulana Azad Library, Aligarh Muslim University, Aligarh for providing me the necessary facilities. I also thank to my research colleagues specially Mr. Nasir Zameer Qureshi, Mr Khaliq Ahmad, Mr Mohd. Talah Siddiqui and Mr N.Z.K. Sherwani. My thanks are also due to Mr. Rashid Hussain and Ali Hasan, of Seminar Library, of the Department of Commerce, A.M.U. Aligarh, for their cooperation.

I must also thank Dr. Sanaullah Mir, Mr Amir Asif, Mr Mohd Sultan Lone, Mohd. Iqbal, Khalil Ahmad and Mr Mohd. Afzal Mir and others for the assistance provided to me during the final stage of this thesis.

My parents have patiently been bearing the brunt of financing me during my long years at Aligarh. But for their blessings and goodwill I would have been a non-starter. My brothers and sisters have always showered their affection on me and obliged me in various ways. My wife has been extremely co-operative and unfailingly loving during the preparation of this thesis, I am beholden to them all.

I must thank Mr SUHAIL AHMAD for his quick and impeceable typing.

Allah alone is beesought for help and on him alone we depend.

October 15, 1987 Riazul Hasan Siddiqui

Aligarh

LIST OF TABLES

LIST OF ABBREVIATIONS USED

FSS	Farmers Service Societies
GDP	Gross Domestic Product
HYV	High Yielding Varieties
LAMPS	Large-sized Advasi Multi-purpose Societies
NA	Non-available
NABARD	National Bank for Agriculture and Rural Development
PACS	Primary Agricultural Credit Societies

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* * *

Chapter 1

INTRODUCTION

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Chapter I

INTRODUCTION

India is predominantly an agricultural country. Agriculture constitutes the most important sector of Indian economy. Nearly 70 per cent of India's population is dependent on agriculture and allied occupations. It contributes about 42 per cent of the gross national product (GNP) and contributes directly and indirectly about 60 per cent of the total exports.

It is a truism to say that the prosperity of the people of India is closely linked with the development of agricultural sector. Although India possesses great natural and other advantages in the field of agriculture, yet the production performance of this sector has not been steadily satisfactory. To increase production sufficiently so as to achieve a higher rate of per capita consumption, is the need of the time. The production of foodgrains which had risen to the level of 10.8 crore tonnes in 1970-71, declined to 10.5 crore tonnes in 1971-72 and to 9.7 crore tonnes in 1972-73. During the crop year 1973-74, foodgrain production marked a recovery over the previous years but declined again in 1974-75. During 1975-76 foodgrains production rose to a level of

12.1 crore tonnes. In 1977-78 it was 12.64 crore tonnes and rose to 13.19 crore tonnes in 1978-79. Due to widespread drought, production of foodgrains in India dropped sharply to 10.97 crore tonnes in 1979-80. Production of commercial crops particularly sugarcane and oil seeds also declined. Production of foodgrains during 1981-82 registered an increase of 2.7 per cent from 129.6 million tonnes in 1980-81 to 133.29 million tonnes in 1981-82 and to 129.52 million tonnes in 1982-83. According to the economic survey for 1985-86 the overall foodgrains production in 1983-84 was 152.37 million tonnes but the production declined to 146.22 million tonnes in 1984-85.[1]

Among the many problems the country is facing population explosion is the most critical. The problem of population growth and demand for more and better food, can not be tackled effectively unless the production is substantially increased. Agricultural production in India has to maintain a balance between population growth, its food and protein requirements and the generation of employment. This calls for the need to achieve new heights in agricultural development.

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1. Economic Survey, 1985-86, p.6.

Agricultural development is much more comprehensive concept than normally understood. Productivity is only one of its dimension. Agricultural development in a true sense, denotes the quality of the agricultural system of a region in terms of productivity, diversification and commercialization. The level and the rate of agricultural development may also be distinguished. The former represents a picture prevailing at a particular point in time while the latter stands for the progress achieved over a given period of time.

India has a total area of 329 million hectares of which nearly 145 million hectares constitute the net cropped area and the gross cropped area being 173 million hectares. The fundamental point of concern, however, is low agricultural productivity per acre. The reasons for the low yield are the uneconomic size of holdings, the fragmentation of land holdings, the defective land tenure system characterised by high rents, lack of adequate credit facilities to the farmers, absence of irrigation facilities and excessive pressure of population on land. The other reasons are low level of farm technology and wide variations in agricultural output due to vagaries of the mansoon.

A new strategy for agricultural development is being implemented from 1966-67. It includes the use of

High Yield Varieties (HYV) seeds over large areas, developments of irrigation facilities, adequate and balanced use of fertilizers, adoption of need based plant protection measures, and a well organised and systematic supply of inputs including credit through institutional and other financing agencies. Efforts are also being made to bring science and technology closer to the farmers through education and training.

An increase in productivity requires the adoption of improved technology in the form of high yielding varieties of crops, new fertilizers combinations, plant protection devices, use of modern and efficient implements as well as measures for land reforms and farm development.

It is said that 'finance' is the pivot through which economic science clusters. The strategy for agricultural development must include among other things adequate and systematic supply of credit to the farmers to enable them to meet their essential requirements. This study attempts to analyse the pattern of financing of small and medium sized farmers in U.P. by the nationalised banks so as to suggest suitable policies and strategies for agricultural developments in general and farm development in particular.

AGRICULTURE AND THE NATIONAL ECONOMY :

The importance of Agriculture in the context of Indian economy can be judged from the fact that its problems and planning for better production have attracted considerable attention of Indian Economists, Scientists, Planners and Policy Makers.

Agriculture forms the back-bone of Indian economy. Despite rapid pace of industrialisation during the plan period, agriculture still occupies a pride of place. The importance of agriculture arises from the following basic facts:

First, it is the most important sector of Indian Economy contributing nearly a little less than half of the national income. Out of the total national income in 1948-49, output from agriculture was of the order of 49.1 per cent. In 1955-56 it contributed to 47.9 per cent and in 1960-61 to 52.5 per cent. Since 1971-72, the proportion of agricultural income to total income has ranged between 40.6 per cent in 1979-80 to 50.6 per cent in 1970-71.[1]

1. Memoria, C.B. Rural Credit & Agricultural Cooperation in India, 1983, p.4.

Second, agriculture dominates the country's economy to such an extent that nearly 72.05 per cent of working population is dependent on agriculture, where as in developed countries this ratio is very small. This indicates that the majority of the people in India are still dependent on agriculture as their main source of livelihood. The high proportion of people dependent on agriculture is due to the fact that alternative non-agricultural activities have not been developed to absorb the rapidly growing population in the country. This is an indication of the fact that a high proportion of working population engaged in agriculture is a phenomenon found in underdeveloped and developing countries.

Third, agriculture has been the source of raw materials to India's leading industries, cotton and jute textiles, sugar, tobacco, edible and non-edible oils, leather, plantation etc. These industries depend on agriculture directly for the supply of raw-materials. Besides many others, processing and preservation of fruits and vegetables, dal milling, rice husking,gur making, oil crushing and handloom weaving also draw on agriculture for their raw material.

Fourth, agriculture by employing about 72 per cent of the total population provides a large part of the market for industrial goods. To the extent that modern agricultural practices are adopted, the demand for inputs like seeds, fertilizers, pesticides, agricultural implements, machinery, pumps and consumer goods goes up and sustains, a larger industrial tempo. It is worth noting that the development of Japanese and Russian industrial economics was made possible by the surplus of agriculture that could be siphoned off to the industrial sector. There is no reason why this could not be done in our case.

Fifth, agriculture is the main support for railway and roadways, which transport bulk of agricultural produce from farms to the mandies and factories. Internal trade consists of mostly of agricultural products. Besides, Government also depends, for its revenues to a large extent, upon the agricultural sector.[1]

Sixth, agriculture contributes a large proportion of India's traditional exports. Agricultural goods contribute roughly about 50 per cent of our total exports. Exports earnings from agricultural products amounted to

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1. Memoria, C.B., Ibid, p.5.

Rs.305 crores in 1965-66 as against Rs.281 crores in 1961-62. In 1969-70, it amounted to Rs.350 crores and to Rs.910 crores in 1977-78 and Rs.1090 crores in 1978-79. The chief items of traditional exports being tea, coffee, cashewnuts, spices, tobacco (raw and manufactured), raw hides and skins, raw jute, raw cotton, sugar jute and cotton textiles, leather goods, oil cakes, vegetable oils, nuts and cereals etc. The exports of these items bring the much needed exchange for import of machinery, chemicals, transport equipments, heavy capital goods, fertilizers and technical know-how.[1] Agriculture also brings about an increase in the Government's revenues - both directly as well as indirectly.

Seventh, agriculture provides food for more than 700 million people and 383 million livestock. The two outstanding features of agricultural production in India are the wide variety of crops and the preponderance of food over non-food crops in as much as about 80 per cent of the area under cultivation is devoted to cereals, pulses and small millets.

The significance of agriculture can be judged from the fact that the development of agriculture is an

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1. Memoria, C.B., Ibid., p.5.

essential condition for the development of the national economy. Nurkse argues that "the surplus population in agriculture should be removed and used in the newly started industries. Nurkse's thesis is that agricultural productivity will be increased on the one hand and on the other new industrial units would be set up with the use of surplus labour"[1]. The argument put forward by Nurkse seems to be sound and rational and Nurkse thesis needs the attention and serious consideration by the economic planners and policy makers of the country.

Thus, it may be said that agriculture is the backbone of Indian economy and development of agriculture is a necessary condition for the growth of Indian economy. Economic historians generally concur that there is no example of achieving development in a country in which a rise in agricultural productivity did not precede or accompany industrial development. The Rostow stages theory of Growth has historically observed that, "agriculture plays a distinct but multiple and converging role in the transitional process of the take off in to self sustained growth". The operation of planned development in India over the last 35 years bears witness to this fact. The performance of the last three Five Year

1. Malhotra, Agricultural Economies, 1986, p.39.

Plans and three one year plans has clearly shown that the estimation of a high but sustained rate of increase in per capita output in India (from Rs.559 in 1960-61 to Rs.721 in 1978-79 at 1970-71 prices, and at Rs.677.8 in 1979-80) is difficult to achieve without a strong development base in her agriculture".[1]

It can, therefore, be said that agriculture occupies a major place in the dualistic set up of the national economy. Its development operation has snowball effect over the whole of Indian economy. It constitutes the most important constraint on the process of growth because it conditions and determines the overwall rate of growth of the economy by supplying food for the population, by supplying some basic raw materials for expansion of certain consumer goods industries, by enlarging the demand for industrial output through increase in agricultural income and through extending the capacity to absorb the monetary flow of industrial investments, by employing a large pool of labour force, and by raising foreign exchange earnings through exports. Despite its all important role in the national economy, it is unfortunate that Indian agriculture continues to be backward, lacks efficient management and control.

1. Memoria, C.B., Ibid, p.5.

Dr. Swaminathan observes, "Agriculture is the most important enterprise of harvest in solar energy and of creating renewable wealth. It provides vast scope for meeting our needs of food, income and jobs through the scientific utilisation of our natural resources. The absolute maximum production potential of India in terms of grain equivalent has been calculated to exceed 4,000 million tonnes".[1]

Thus, agriculture constitutes the largest and most important sector of the Indian economy. It plays a crucial role in providing food to the nation, employment to the population, raw material to the industries and surpluses for national economic development. With the decline in foodgrains production, prices rise, cost increases industrial growth slows down and exports suffer. Indian agriculture accounts for more than two fifths of the gross domestic product (GDP). It is also responsible for the growth of industry, trade, transport, banking and business services, which in turn, influence the growth of GDP.[2]

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1. Memoria, C.B. Ibid, p.6.
2. Banarjee, B.N. Industry, Agriculture & Rural development, R.B. Publishing Corporation,1987, p.1.

NATIONALISATION OF COMMERCIAL BANKS :

Nationalised banks refer to public sector banks. In all there are twenty such banks. Fourteen banks were nationalised on July 19, 1969 and brought under the public sector. Another six scheduled commercial banks were nationalised on April 15, 1980.

The objective of bank nationalisation was to use financial institutions as the instrument for promoting economic and social development in the country. In other words, the main objective of nationalisation was to divert funds from urban to rural areas for promoting agricultural and allied sectors.

There are also regional rural banks in India which meet the credit requirements of weaker sections, small and marginal farmers, landless labourers, artisans and small entrepreneurs. This new category of banking institution came into force from 1975. At the end of December 1982, 124 such banks were working in the country. The number increased to 142 by June 1983.

A National Bank for Agriculture and Rural Development (NABARD) has also been set up. This Bank is an apex organisation with respect to all matters relating to policy, planning and operational aspects in the flow of credit for the promotion of agriculture, small scale industries, cottage and village industries, handicrafts and other rural crafts and other allied economic activities in rural areas.

IMPORTANCE OF FINANCE IN AGRICULTURE :

Finance is essential for all business undertaking including agriculture. One of the most important factor for the slow development of Indian agriculture has been the lack of finance available to the farmers. The farmers have not been able to secure adequate finance for their seasonal agricultural operations and for making permanent improvement on land.

Credit plays a very significant role in rejuvenating the near stagnant agriculture of the developing countries including India. Its right quantity, right kind at the right time contribute to agricultural development immensely. It consists in enlarging the net cultivable area by bringing waste land under cultivation, helps in providing manure and chemical fertilizers, protection of land, the provision of irrigation facilities, making large amounts of fixed and working capital available to agriculture, developing farm organisations, enlarging their share of gross national product and increasing labour returns in agriculture. Adequate and timely finance enhances the withholding capacity of cultivators and their bargaining position. With the increase in the holding capacity of the cultivators, the huge post-harvest market glut may be avoided, a major factor in lowering the agricultural prices just after the harvest. Right type of credit penetrates into agriculture and injects an element of healthy competition and purely commercial considerations in farm operations. It turns agriculture into a way of living as distinct from a way of life. Thus, the role of credit consists in laying the foundation stone of farm revolution and farm development.[1]

The Indian farmers need money for a variety of purposes. They need money for the purpose of cultivation, to buy seeds, manure, fertilizers, fodder for cattle, purchase of cattle and agricultural implements for the development of land, to buy costly agricultural instruments and to make permanent improvements on land. These financial requirements of farmers can be classified into three:

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1. Memoria, C.B. Ibid, p.50.

First, the farmers need money for short periods of, say, 12 to 15 months, for the purpose of cultivation or domestic expenses as for example, to buy seed, manure, fodder for cattle, etc. Such short period loans are normally repaid after the harvest has been collected.

Second, the agriculturists need money for medium term from three to five years for the purchase of cattle, agricultural implements and to make improvements on land.

Third, the farmers need finance for long periods to purchase additional land, to make permanent improvements on land, to pay off old debts and purchase costly agricultural machinery. These loans are for comparatively long periods since they can be repaid by the farmers only gradually over a number of years, say, from 15 to 20 years.

To meet the above financial requirements of farmers, banks in our country have been nationalised. The proper and timely financing of the requirements of farmers by the nationalised banks will go a long way in laying the foundation stone for agricultural resolution in the country.

CLASSIFICATION OF FARMS :

The agricultural census 1980-81 devided the operational holdings in India in five categories (table 1.1). These categories are as under:

Table 1.1

Category and Size of Operational Holdings

Category of operational holdings	Size of Operational holdings
1. Marginal	(0- 1.0 hectare)
2. Small	(1.0- 2.0 hectares)
3. Semi-Medium	(2.0- 4.0 hectares)
4. Medium	(4.0-10.0 hectares)
5. Large	(10.0- above)

Source: Banarji, B.N. Industry, Agriculture and Rural Development, 1987, Page No.47.

Table 1.1 shows the size of distribution of holding classified into marginal (less than 1 hectare), small (1.0 to 2.0 hectares) semi-medium (2.0 to 4.0 hectares), medium (4.0 to 10.0 hectares), and large (10.0 hectares and above). The above classification of holdings into five categories has been chosen in the present study to determine the size of operational holdings. However the present study will mainly focuss on the pattern of financing of small and medium sized farms in some selected districts of U.P. by nationalised banks.

a. Marginal holdings:

This category belongs to the one half of the total operational holdings in Indian Agriculture. 50.52 million out of 89.35 million belongs to this size category of less than 1 hectare. These marginal holdings account for 19.80 million hectares (12.2 per cent of the operational area). In other words, nearly 56.5 per cent of the agriculturists are marginal farmers who live below the poverty line because they have too little land to support them. The average size of holding is .39 hectares in this category.

b. Small and Semi-Medium holdings:

This group consists of holdings in the range of 1.0 to 4.0 hectares. There are 28.59 million holdings, more than one third of the total holdings and they account for 57.52 million hectares in this category. The percentage of farmers are 32 in this category and the average size of holding is 2.01 hectares in this category.

c. Medium Sized holdings:

This group consists of holdings in the range of 4.0 to 10.0 hectares. There are nearly 8.09 million holdings in this category accounting 9.1 per cent of total operational holding and these holdings cover 48.34 million hectares, i.e. 29.7 per cent of the total operational area. The average size of holding is 5.98 hectares in this category.

d. Large holdings :

Large holdings in the size of group 10 hectares and above numbering 2.15 million constitute only 2.4 per cent of the total number of operational holdings. They account for a total area of 37.13 million hectares i.e., nearly 22.8 per cent of the total area operated in Indian Agriculture. The average size of holdings are 17.27 hectares in this category.

There are 89.35 million operational holdings in our country, spread over an aggregate area of 162.79 million hectares. The average size of holding is little less than 2 hectares. The small farmers, semi-medium and medium farmers are having 36.68 million operational holdings in our country out of 89.35 million operational holdings. In this way small, semi-medium and medium sized operational holdings cover 41.1 per cent operational holdings. Thus a large majority of farmers in our country come in the category of marginal and small sized holdings whereas a small minority of farmers in terms of size of holdings, belong to large category.

IMPORTANCE AND OBJECTIVES OF THE STUDY:

Farm is the part of agriculture and it is the main occupation of the people. Agriculture plays a significant role in Indian Economy because it contributes nearly 42 per cent of national income of India. Agriculture is the source of livelihood of nearly 70 per cent of the population of the country. The importance of this sector can be judged from the fact that nearly 70 per cent of the working people are engaged in agriculture and allied occupations. This indicates the fact that employment opportunities are greater in agriculture than in other sectors of the economy. Agriculture provides raw materials to the industries. In our country, most of our leading industries depend on agriculture for their raw material. For instance, industries like cotton, textiles, jute, sugar and vanaspati depend on agriculture for their raw materials. The plantation industries like tea, coffee, rubber etc. also depend directly on agriculture. There are a number of other industries whose dependance on agriculture is indirect. Such industries include hand poundering and husking of rice, crushing of oil, weaving of handloom and khadi cloth, etc. Many others like paper, leather and tanning, matches, chemicals etc. depend on allied activities of agriculture like forestry, animal husbandry etc. Although a number of modern industries like iron and steel, machine tools, engineering, aircraft etc., do not depend on agriculture for their raw materials but these industries supply important agricultural inputs like fertilizers, farm machinery and equipment. Thus both agriculture and industry are inter-dependent.

Agriculture has been a net earner of valuable foreign exchange for the country. At present, about 50 per cent of our exports consist of agricultural commodities. In respect of our internal trade, agriculture makes a significant contribution because most of the internal trade is in agricultural commodities. Agriculture is also the main support for our transport system.

Agriculture also increases in Government's revenues. It provides the food for her 700 million people and 383 million livestock. Thus the significance of agriculture in our country arises also from the fact that the development of agriculture is an essential condition for the development of the national economy. During last two decades, there has been considerable change in almost all the parameters of agriculture in India characterised by marked regional variations. Small farmers and landless agricultural labourers constitute the bulk of rural households - small farmers represent 52 per cent and agricultural labourers 24 per cent. 62 per cent of the holdings are less than 2 hectares and account for about 19 per cent of the cultivated area.

There has been vertical and horizontal expansion in the field of agriculture. Though from time to time the Government of India has introduced new programmes and policies for the development of Agriculture. But it is unfortunate that the farmers are still destined to suffer from the following problems that have become impediments in the agricultural development.

i) Fragmentation of holdings;

ii) Insecurity of tenure;

iii) Inadequate and untimely supply of inputs including irrigation;

iv) Lack of credit facilities;

v) Unsatisfactory arrangements for storage and marketing etc.

It is in this background that the present study assumes special significance, The present study seeks to examine the plight of small and medium sized farmers who constitute the bulk of rural households. An attempt has been made to identify the needs and problems of small farmers and to suggest measures to tackle these problems. The importance of the present study can not be over-emphasised in a country like India where about 70 per cent of the workforce is engaged in agriculture. The government has accorded a high priority to Agriculture in our Five Year Plans and banks were nationalised mainly to finance the rural sector of the economy.

We can not overlook the needs of rural development because it has its impact on the economic development of our country. If we want to achieve a notable progress on the rural front, our banking industry will have to come up on the for-front with new packages to farmers like high yielding varieties of crops, new fertilizer combination, plant protection devices, use of modern and efficient implements as well as measures for land reforms, credit and marketing facilities and reduce protection risks as well as price uncertain-ties. This is an uphill task for the banks firm measures should be taken to provide farmers with the advance technical know-how, marketing and financial assistance.

In this study an attempt is made to examine the pattern of credit provided by the nationalised banks to small and medium-sized farmers in Uttar Pradesh. No doubt the banks have played a vital role in developing the agriculture in Uttar Pradesh in the past. Despite this, the medium and small sized farmers are still facing innumerable problems both financial as well as non-financial. The present study investigates the problems, of small and medium-sized farmers in some selected districts of Uttar Pradesh. An attempt has also been made in this study to suggest measures to overcome these problems so that the small and medium sized farmers could prosper in a conducive environment. Objectives of the study are as under:

i) To examine the pattern of financing of small and medium sized farms by Nationalised Banks with reference to some selected districts in U.P.;

ii) To identify the problems faced by small farmers in getting finance from nationalised banks; and

iii) To suggest remedial measures.to tackle the problems faced by small and medium farmers who form the majority of operational holdings in our country.

Apart from the main objectives of the thesis discuss above there were certain secondary objectives of this study, which are given below:

i) to study the importance of agriculture in the national economy;

ii) to study the historical development of the banking industry in India, its structural set up, and to examine the performance of nationalised banks in financing agriculture including farm operations; and

iii) to examine the role of nationalised banks in financing agriculture in the context of high priority accorded to this sector by the government.

METHODOLOGY:

An evaluation of the important role played by the nationalised banks in financing farms has been done mainly with the help of the literature available in various books, journals, articles, periodicals etc. which have been duly acknowledged. The analysis of the pattern of financing of small and medium-sized farms by nationalised banks is based on secondary data made available from reports, publications, bulletins of R.B.I. and nationalised banks. For the purpose of conducting a survey to find out the problems of some selected small and medium sized farms in Uttar Pradesh. We have prepared two different Questionnaires to collect relevant information from the borrower and non-borrower farmers.

The questions which were included in the questionnaire were short, simple and they provided information on relevant parts of the main theme. (Questionnaire Form Vide Appendices 1 and 2).

Uttar Pradesh has been divided into three regions western, central and eastern. The six representative districts, namely, Saharanpur and Muzzaffarnagar from western region, Budaun and Aligarh from central region, Basti and Faizabad from eastern region have been selected for the purpose of this study.

The list of 300 borrower farmers was gathered from nationalised banks of sample districts by which they were financed. This sample unit has been further stratified into small, medium and large farmers in the ratio of 3:2:1 respectively. An equal number of non-borrower farmers has been selected randomly from the sample areas, thus, forming a total of 600 sample farmers. These farmers were asked questions through the two different questionnaires prepared separately for participants and non-participants. The farmers thus selected were contacted personally and they were interviewed to find out the problems faced by them in getting finance from the branches of nationalised bank situated in their respective areas. Discussion also took place with the farmers on the steps that could be taken for improving the procedure for the availability of funds and timely release of disbursements to facilitate the farming operations. The questionnaireswere not sent by mail in view of the fact that most of the respondents were illiterate and hence personal contacts were preferred to gather authentic data in time.

IMPLICATIONS OF RESEARCH:

The suggestions made on the basis of present study are hoped to be of immense help for the banks in restructuring their financing operations to improve their techniques and practices of providing and recovering the loans from the farmers. Not only the financial aspect is covered under the present study but also several non-financial factors like new technology, high yielding varieties, small irrigations, farm reforms have been briefly discussed and corrective measures have been suggested. Therefore, it is very likely that if these corrective measures are taken by these banks in right directions and at the right time, the small and medium sized farms in India will prosper at a comparatively faster rate.

The present study identifies the difficulties faced by small farmers who constitute the bulk of holdings in U.P. These constraints faced by small and medium-sized farms must be looked into by the economic planners and policy makers in this country. To meet these challenges effectively the present study suggests strategies and, policies to be pursued by nationalised banks. Which control nearly 90 per cent of the banking operations in the country.

Therefore, the findings of this study are important and useful for revamping the financial systems of nationalised banks as well as for improving the efficiency and productivity of small and medium sized farms in Uttar Pradesh.

Chapter II

Role of Nationalised Banks in Financing Agriculture

HISTORICAL PERSPECTIVE :

Modern joint stock commercial banks were established in India towards the begining of the 19th century. The earliest commercial banks, known as Agency Houses, were started by the employees of the East India Company. They were established mainly to cater to the need of the colonial Economy. The bank offices were confined largely to the three port cities of India viz; Bombay, Calcutta and Madras. These Agency Houses were mainly trading concerns and they combined banking and trading functions together. Several banks were established on unlimited liability basis mainly by the English Agency Houses. But most of them failed during the crises of 1829-33 largely due to the combination with other business, speculation and mismanagement. After these crises, several banks were started again by European Agency Houses and many of them failed by 1860 mainly due to speculation and mismanagement.

In 1860, an Act was passed permitting the establishment of banks on 'limited liability' basis. Soom afterwards came the American civil war which caused a boom in India's cotton trade with England. Banks speculated heavily and participated in the in the cotton trade on a fairly large scale. They failed to make an impact and this destroyed the confidence of the public in the stability of banks.[1]

From 1865 till the end of the 19th century the growth of joint stock banks was slow. A few banks were started during the last quarter of the 19th century such as the Allahabad Bank, Oudh Commercial Banks and the Punjab National Bank. The Swadeshi Movement of 1906 gave a stimulus to the starting of Indian banks. During 1906 to 1913 several banking institutions came into existence. A number of small banks were established during this period. Some of the existing nationalised banks like Bank of India, Indian Bank, Bank of Baroda and Central Bank of India were established only during this period.

This boom in bank floatation was followed by a banking crisis during 1913-17. During this period as many as 87 banks failed and their failure completely shattered the public confidence in joint stock banks. There was a brief respite in bank failures from 1918 to 1921. The latter part of the First world war gave an impetus for the starting of banks. But again from 1928, the number of failures increased mainly due to

1. Radhaswami, M. A Text Book of Banking, 1979, p.768.

economic depression. During 1937-48, 620 more banks failed. Most of the failures were confined to small banking institutions. Thus the development of joint stock banking in India during this period was characteristic of bank failures.[1]

The Second World War brought about a major change in the Indian banking system. The deposits of the banks increased as a result of heavy war time expenditure. The emphasis on liquidity and the low interest rates on time deposits contributed to the increase in the demand liabilities of the banks. The banks opened a number of branches in different places to mobilise the savings of the people. There was also a significant change in the distribution of banking assets. Advances and discounts lost their importance and their place was taken up by Government securities. The commercial banks began to specialise in different types of Government securities. The ratio of cash to total deposits gradually increased. At the same time, the ratio of capital and reserve to deposits declined.[2]

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1. Radhaswami, M. Ibid p.769.
2. Radhaswami, M. Ibid p.770.

brought about a revolutionary change in the banking system of India.

BANKING AFTER INDEPENDENCE:

After independence there has been a tremendous growth in the banking system of our country. The banking scene in India changed completely after Independence. The banking system recorded rapid progress during this period. The change became possible with passing of the Banking Regulations Act in 1949. It is considered to be a big landmark in the history of commercial banking in India. The Act was passed with the object of consolidating and regulating the banking system in India. This Act introduced for the first time, the system of licensing of banks. It laid down minimum requirements regarding paid up capital and reserves and prohibited the opening of new branches without the permission of Reserve Bank of India. The Act contained several provisions to safeguard the interests of depositors and to curb the activities of foreign exchange operating against Indian interest.

The Banking Regulations Act was a well thought out and comprehensive piece of legislation designed to safeguard the interest of depositors and promote the development of banking on sound lines in our country. In 1921, the Imperial Bank of India came into existence with the amalgamation of three Presidency Banks. In 1948, the government accepted the principle of nationalisation of banks. Consequently, the State Bank of India came into existence on July 1, 1955 by taking over the assets and liabilities of the Imperial Bank of India.

Another landmark in the history of Indian banking was the adoption of the scheme of "Social Control" of banks by the government in December, 1967. The legislative measure for social control was the Banking Law (Amendment) Act, 1968 which came into force on February 1, 1969.[1] But later due to certain economic and political reasons, the scheme of social control of banks was abondoned in favour of nationalisation of Commercial Banks.

The Need for Bank Nationalisation

The main objectives sought to be achieved through the nationalisation of banks included the augmenting of resources for economic growth, the development of agriculture and industry in backward regions, and making

1. Radhawami, M. Ibid, p.773.

bank credit available to rural areas which had hitherto been neglected. To achieve these objectives banks' lending policies are governed by the government instead of by few monopolist shareholders who in the past diverted bank resources to their self-desired channels ignoring the needs of the country's economic planning. In this way the government intends to eliminate the use of bank money for speculative purposes and unproductive works. The bank resources shall be utilised for encouraging new entrepreneurs. It was also proposed to secure professional standards in bank management and provide adequate training facilities for banking personnel by assuring reasonable terms of employment for the banking industry's staff.[1]

The Government favoured nationalisation of Commercial banks in place of social control of banks for the reasons mentioned below: which also suggest economic justification for nationalisation.

The commercial banks have favoured in the past their lending in such industry, trade and commerce in which their directors were interested. The requirements

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1. Verma, J.C. Nationalisation of Banks In India, year - N.A.P.10 A Careers Digest Publication.

of farms and small scale industries were neglected. The distribution of bank credit to this sector shows that only a negligible share of the banks total advances was made available despite the fact that the government had always emphasised priority for these sectors. Table 2.1 shows the percentage share of agriculture in the distribution of total bank credit made available by commercial banks to this sector.

Table 2.1

Share of farm sector in Bank credit

Year	Percentage share of Agriculture
March - 1956	2.0
April - 1961	3.1
March - 1966	2.4
March - 1967	2.1

Source : Verma, J.C. Nationalisation of Banks in India, Year (N.A.) p.12.

It is evident from table 2.1 that the percentage share of agricultural credit in total credit advanced by the scheduled banks was 2% in 1956, 3.1% in 1961 and 2.4% in 1966 which declined to 2.1% in 1967, including for plantations. Thus the contribution of Commercial banks in the development of farm sector has been insignificant during 1956-67 as shown in table 2.1.

The above figures clearly show that share of Commercial banks in farm financing was negligible. As a result, the government nationalised the banks to correct the economic imbalances by providing adequate, timely and cheap credit to farmers and small scale industries in the rural areas.

Objective of Bank Nationalisation

Nationalisation in simple words means State ownership and Control of banks. There has been an increasing demand for the nationalisation of private enterprises in the 1950's. Pressures for bank nationalisation increased in 1960's to strengthen the foundation of socialist pattern of society. The government and the general public were not satisfied with the working of commercial banks in India. It was felt that the Indian banks had failed to come up tto the expectations of our society and had not made worthwhile contribution towards achieving certain social objectives.

While stessing the need for nationalisation of Commercial banks, the late Mrs.Gandhi said,"While the nation is committed to establish a socialist pattern of society, the government felt that the public ownership and control of the commanding heights of the national economy and of its strategic sectors were essential and important aspects of the new social order which we are trying to build. As the financial institutions are amongst the most important levers for the achievement of its social objectives, the nationalisation of major banks was felt a significant step in the process of public ownership over the principal institutions for the mobilisation of people's savings and chanalising them towards productive purposes. The Government felt that the public ownership of the major banks will help in the effective mobilisation and development of national resources so that our objectives can be realised with a great degree of assurance".[1] The objectives of bank nationalisation were spell out as follows:

(1) Removal of control by few;

(2) Provision of adequate credit for Agriculture, small industries, and exports;

(3) Professionalisation of bank management;

(4) Encouragement to new class of entrepreneurs;

(5) Provision of adequate training as well as reasonable terms of seryices for bank staff;

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1. Radhaswami, M. Ibid p.6.

(6) To remove regional imbalances;

(7) To prevent the diversion of bank finance to anti-social and less productive purposes.

The objectives of bank nationalisation described above are indeed laudable and can go a long way in strengthening the foundations of socialist society and mixed economy.

Performance of Nationalised Banks

Performance of Commercial banks could be viewed in terms of branch expansion and advances to agriculture sector through a number of innovative schemes. These are discussed below:

Table 2.2 shows the branch expansion by commercial banks from 1969 to 1986. It may be observed that during this period, the number of branches of these banks increased by 44,764 from 8,321 in July 1969 to 53,085 in March 1986. Of these, the nationalised banks, numbering 20, accounted for an increase of 21,008 branches followed by the Regional Rural Banks (12,629 branches) and State Bank group (8,326 branches).

Table 2.2

Bank Groupwise/Population Groupwise Distribution
of Commercial Banks in India

Bank Group	Number of offices as on: 19.7.1969	31.3.86	Increase
1. State Bank Group			
Total	2,466	10,792	8,326
Rural	810	4,890	4,080
Percentage of rural to total	32.8	45.3	49.0
2. 20 Nationalised Banks			
Total	4,168	25,176	21,008
Rural	703°	11,638	10,935
Percentage of rural to total	16.9	46.2	52.0
3. Regional Rural Bank			
Total	17(a)	12,646	12,629
Rural	17(a)	11,671	11,654
Percentage of rural to total	100	92.3	92.3
4. Other Commercial banks			
Total	1,688	4,471	2,783
Rural	337	1,434	1,097
Percentage of rural to total	20.0	32.0	39.4

contd..

5. All Commercial Banks			
Total	8,321	53,085	44,764
Rural	1,860	29,633	27,773
Percentage of rural to total	22.4	55.8	62.0

o Relates to 14 Nationalised Banks

(a) As at end 1975

SOURCE: Report on Currency & Finance 1985-86, vol. I, p.196.

As regards the branch expansion by Commercial banks in rural areas, the proportion of rural branches to total branches stood at 22.4 per cent as at July 1969. In March 1986, however, there was a sizeable improvement and the ratio rose to a high 62.0 per cent. As regards 20 nationalised banks, the ratio rose from 16.9 per cent in July 1969 to 52.0 per cent in March 1986 and for State Bank Group from 32.8 per cent to 49.0 per cent during the period under reference.

Table 2.3 reveals the share of credit to agriculture sector in total credit from December, 1969 to September, 1985. It may be seen that there is a sizeable improvement in the deployment of credit by Commercial banks to this sector. While in December 1969,

Table 2.3

Deployment of Credit to Agriculture

1969 to 1985

Year ended Dec.	% of total agricultural advances to net bank credit
1969	7.1
1970	8.9
1971	7.8
1972	8.7
1973	8.7
1974	9.7
1975	10.3
1976	10.1
1977	11.1
1978	12.1
1979	13.5
1980	14.9
1981	16.0
1982	15.4
1983	15.1
1984	16.5
1985^{o} (September)	18.1

SOURCE: R.B.I. Bulletin, Feb. 1986.

the share of agricultural sector credit to total credit was 7.1 per cent, it rose to 18.1 per cent in March 1985. In absolute terms these advance increased from Rs.2,580 millions in December 1969 to Rs.81,740 millions in September 1985.

Also the Commercial banks have made concerted efforts to reach rural borrowers. They have concentrated on certain compact areas having sufficient potential for rural lending. A number of banks have set up specialised branches and these are known as Agricultural Development branches (State Bank of India), Gram Vikas Kendras (Bank of Baroda), Rural Service Centre (Dena Bank), Rural Credit & Development Division (Indian Overseas Bank), Rural Development Branches and Rural Credit Cells (Corporation Bank) etc. Sufficient staff with expertise have been provided for effective lending, monitoring and follow up actions.

It is therefore evident from table 2.2 and 2.3 that in terms of branch expansion programme and advances to agricultural sector, the performance of nationalised banks appear to be highly satisfactory. However, it must be pointed out that bank achievement in rural financing need not be in terms of quantitative factors like number of rural branches, credit advanced, credit deposit ratio etc. alone and efforts must be made to reach the ultimate beneficiaries in the rural areas and the benefits of the bank finance should go mainly to this category of people. Then only we can say that we have been able to establish a mass banking system.

Nationalised Banks and Agricultural Financing

Before the advent of planning era in 1951, rural credit was largely provided by informal channels such as money lenders, friends, relatives of farmers and to some extent, by cooperatives and government.[1] According to the All India Rural Credit Survey Committee (1954), appointed by RBI - cooperatives and governments, accounted for only 3 per cent each of the total quantum agricultural credit, the share of commercial banks was less than 1 per cent. The Committee had recommended cooperative credit societies as the most appropriate agency for supply of rural credit. Accordingly, Govt. and the

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1. Ojha, P.D. R.B.I. Bulletin, Feb. 1986, p.150.

RBI made special efforts to strengthen cooperatives. However, after the advent of new technology the credit needs of agricultural sector increased considerably beyond the capacity of cooperatives and therefore commercial banks were inducted into the field of agricultural credit under the policy of 'Social-Control' over banks in 1967. The process was intensified with the nationalisation of 14 major commercial banks in July 1969.[1]

The commercial banks as a group from a major part of the organised banking system in the country. There are 28 banks in the public sector accounting for over 90 per cent of banking business and 52 private sector banks including 21 foreign banks. The commercial banks provide both short term and long term loans to farmers and also finance allied activities like marketing, processing, storage, etc. Since nationalisation of major commercial banks, considerable progress has been made in the coverage of rural areas through their branch network and also in the matter of extending rural credit.[2]

1. Ojha, P.D. Ibid. p.150.

2. Ibid, p.153.

Also, effort has been made to bring about a change in the lending pattern of banks. Agricultural advances by the banks may be classified in two types of loans, discussed below:

6.1 Direct Finance : This includes short term, medium/ long term loans to farmers for agricultural operations. Short term (including crop loans) are given for purchase of production inputs, such as, seeds, fertilizers, pesticides, etc. and to meet the cost of cultivation which includes labour charges for carrying out agricultural operations, irrigation charges, etc. These loans are normally repayable within a period of 12 months and in certain cases within 15 to 18 months depending upon repayment schedule. The repayment schedule is related to the harvesting and marketing of the particular crop of farmers.

Term (medium/long) loans are granted for development purposes like development of irrigation potential, purchase of tractors and other agricultural implements and machinery, improvement of land, development of plantations, construction of godowns and cold storage, purchase of pump sets/oil engines, plough animals (bullocks) etc. The period of repayment of these loans generally extends from 3 to

10 years. It may be longer, particularly in such cases where refinance from NABARD is available.

6.2 Indirect Finance : In case of Indirect finance, banks facilitate the farmers by lending through some other agencies like Primary Agricultural Credit societies, farmers service societies, large-sized adivasi, multipurpose societies, loans to electricity board, Distribution of fertilizers and other inputs.

It can be seen from Table 2.4 that the total outstanding advances of scheduled commercial banks to agriculture have increased from a mere Rs.188.41 crores in June 1969 to Rs.341.77 crores as on June 26, 1970 and further to Rs.646.87 crores as on June 1974. The increased to Rs.236.36 crores at the end of June 1971 as against Rs.183.98 crores as at the end of June 1970, while indirect declined from 157.79 crores to Rs.146.12 crores during the same period. The total agricultural lending by commercial banks has recorded a compound growth rate of about 28.0 per cent per annum during the period 1969 to 1974, and about 25.0 per cent during 1975-1984. The growth rate over the entire period June 1969 to December 1984 worked out to about 28.0 per cent.

Table 2.4

Comparative position in Agricultural Finance of State Bank of India and its associates, Nationalised Banks and all Scheduled Commercial Banks.

(Crores of rupees)

As on last Friday June	Types of Loans	SBI and its associates Amount Outstanding		Nationalised Banks Amount Outstanding		Other banks Amount Outstanding		Total amount Outstanding	
1968-69	Direct	11.06	(20.6)	29.16	(54.3)	13.39	(25.0)	53.61	(100)
	Indirect	85.85	(65.9)	33.26	(24.6)	12.68	(9.4)	134.80	(100)
	Total	99.91	(53.0)	62.42	(33.1)	26.07	(13.8)	188.41	(100)
1969-70	Direct	55.51	(30.2)	104.87	(57.0)	23.60	(12.8)	183.98	(100)
	Indirect	86.40	(54.7)	54.87	(34.8)	16.52	(10.5)	157.79	(100)
	Total	141.91	(41.5)	159.74	(46.7)	40.12	(11.7)	341.77	(100)
1970-71	Direct	68.52	(29.0)	137.85	(58.3)	29.99	(12.7)	236.36	(100)
	Indirect	66.91	(45.8)	67.68	(46.3)	11.52	(7.9)	146.12	(100)
	Total	135.43	(35.4)	205.53	(53.7)	41.51	(10.9)	382.48	(100)
1971-72	Direct	64.29	(24.0)	167.61	(62.5)	35.83	(13.4)	267.73	(100)
	Indirect	69.09	(40.1)	87.47	(50.8)	15.71	(9.1)	172.27	(100)
	Total	133.38	(30.3)	255.08	(58.0)	51.54	(11.7)	440.00	(100)
1972-73	Direct	-		297.84	(87.1)	43.91	(12.9)	341.75	(100)
	Indirect	-		170.85	(89.8)	19.34	(10.2)	190.19	(100)
	Total	-		468.69	(88.1)	63.25	(11.9)	531.94	(100)
1973-74	Direct	118.33	(27.2)	273.25	(62.8)	43.82	(10.0)	435.40	(100)
	Indirect	59.33	(28.0)	134.77	(63.8)	17.37	(8.2)	211.47	(100)
	Total	177.66	(27.5)	408.02	(63.0)	61.19	(9.5)	646.87	(100)

Data related with Public Sector Banks.

Note : Figures in brackets denote percentage to total.

SOURCE : Various Issues of Report on Currency & Finance, RBI, Bombay.

Table 2.5

Comparative Position in Agricultural Finance of State Bank of India and its associates, Nationalised Banks and all Scheduled commercial Banks

(Amount in Lakhs of rupees)

As on the last Friday of December	Types of Loans	SBI & its subsidiaries: No. of accounts	SBI & its subsidiaries: Balance Outstanding		14 Nationalised Banks: No. of accounts	14 Nationalised Banks: Balance Outstanding		Other Scheduled Commercial banks: No. of Accounts	Other Scheduled Commercial banks: Balance Outstanding		TOTAL: No. of Accounts	TOTAL: Balance Outstanding	
1975	Direct	9,48,660	22,807	(35.5)	17,42,968	43,042	(59.4)	4,04,553	6,639	(9.1)	30,96,181	72,488	(100.0)
	Indirect	1,36,837	8,584	(28.7)	2,04,454	19,257	(64.3)	10,297	2,090	(7.0)	3,51,588	29,931	(100.0)
	Total	10,85,497	31,391	(30.7)	19,47,422	62,299	(60.8)	4,14,850	8,728	(8.5)	34,47,769	1,02,419	(100.0)
1976	Direct	14,73,991	32,608	(32.5)	24,34,287	58,990	(58.8)	5,04,926	8,685	(8.7)	44,13,204	1,00,283	(100.0)
	Indirect	2,09,993	10,664	(32.1)	2,82,599	20,660	(62.2)	13,250	1,886	(5.7)	5,05,842	33,211	(100.0)
	Total	16,83,984	43,272	(32.4)	27,16,886	79,650	(59.7)	5,18,176	10,572	(7.9)	49,19,046	1,33,494	(100.0)
1977	Direct	20,26,218	48,715	(38.6)	25,35,974	66,367	(52.7)	6,63,811	10,943	(8.7)	52,26,003	1,26,025	(100.0)
	Indirect	2,33,844	13,021	(33.3)	3,85,914	23,845	(61.0)	23,450	2,217	(5.7)	6,46,208	39,083	(100.0)
	Total	22,60,062	61,736	(37.4)	29,21,888	90,212	(54.6)	6,87,261	13,160	(8.0)	58,69,211	1,65,108	(100.0)
1978	Direct	26,07,102	70,102	(42.1)	28,33,993	82,440	(49.5)	6,32,240	13,965	(8.4)	60,73,335	1,66,507	(100.0)
	Indirect	2,94,938	17,200	(30.1)	5,06,105	31,211	(54.7)	1,26,718	8,680	(15.2)	9,27,761	57,091	(100.0)
	Total	29,02,040	87,302	(39.0)	33,40,098	1,13,651	(50.9)	7,58,958	22,645	(10.1)	70,01,096	2,23,598	(100.0)
1979	Direct	33,29,585	95,348	(43.2)	35,26,159	1,06,169	(48.2)	7,47,282	18,941	(8.6)	76,03,026	2,20,458	(100.0)
	Indirect	3,96,961	21,100	(31.7)	6,50,836	35,678	(53.7)	52,948	9,715	(14.6)	11,00,745	66,493	(100.0)
	Total	37,26,546	1,16,448	(40.6)	41,76,995	1,41,847	(49.4)	8,00,230	28,656	(10.0)	87,03,771	2,86,951	(100.0)
1980	Direct	36,89,618	1,16,421	(41.7)	44,64,611	1,54,495	(55.4)	3,47,240	7,999	(2.9)	85,01,469	2,78,915	(100.0)
	Indirect	4,40,016	24,964	(31.9)	6,63,169	47,610	(60.7)	30,527	5,777	(7.4)	11,33,712	78,351	(100.0)
	Total	41,29,634	1,41,385	(39.6)	51,27,780	2,02,106	(56.6)	3,77,767	13,776	(3.8)	96,35,181	3,57,266	(100.0)
1981	Direct	43,14,426	1,47,985	(41.2)	53,06,127	2,01,616	(56.2)	2,89,492	9,069	(2.6)	99,10,045	3,58,670	(100.0)
	Indirect	5,79,116	34,608	(32.3)	6,93,984	67,750	(63.3)	17,928	4,717	(4.4)	12,91,028	1,07,075	(100.0)
	Total	48,93,542	1,82,593	(39.2)	60,00,111	2,69,366	(57.8)	3,07,420	13,786	(2.9)	112,01,073	4,65,745	(100.0)
1982	Direct	45,05,935	1,62,755	(40.0)	57,47,130	2,32,668	(57.3)	2,60,305	10,631	(2.7)	105,13,370	4,06,054	(100.0)
	Indirect	5,79,927	38,554	(31.4)	7,59,790	76,619	(62.4)	14,412	7,527	(6.2)	13,54,129	1,22,705	(100.0)
	Total	50,85,862	2,01,314	(38.0)	65,06,920	3,09,287	(58.5)	2,74,719	18,158	(3.5)	118,67,499	5,28,759	(100.0)
1983	Direct	52,25,414	1,99,598	(40.7)	65,54,048	2,77,752	(56.6)	2,87,098	12,932	(2.7)	120,66,560	4,90,282	(100.0)
	Indirect	2,53,778	41,819	(31.4)	7,25,884	82,269	(61.0)	16,746	8,895	(6.7)	9,96,408	1,32,983	(100.0)
	Total	54,79,192	2,41,417	(38.7)	72,79,13[illegible]	3,60,020	(57.8)	3,03,844	21,828	(3.5)	130,62,968	6,23,265	(100.0)
1984	Direct	57,01,414	2,38,671	(38.4)	77,77,638	3,58,364	(58.4)	3,57,066	16,526	(2.7)	138,36,118	6,13,561	(100.0)
	Indirect	2,97,38	48,195	(32.4)	6,93,136	89,176	(60.0)	16,993	11,183	(7.5)	10,07,511	1,48,554	(100.0)
	Total	59,98,796	2,86,866	(37.6)	84,70,774	4,47,540	(58.7)	3,74,058	27,709	(3.7)	148,43,629	7,62,115	(100.0)

Note: Figures in brackets denote percentage of total.
Source: Various issues of Report on Currency & Finance RBI, Bombay.

According to the types of advance, direct finance to agriculture grew at a much faster rate than indirect finance. The former increased at a compound rate of 52.0 per cent per annum during 1969-74 and at a rate of 26.8 per cent per annum during 1975 to 1984. The high growth rate of direct finance in the earlier period could be attributed to the initial surge for the new type of lending in response to policy directives as also to very low base. Over the entire period (1969-1984), direct finance to agriculture rose at a compound rate of 37.1 per cent per annum. As against this, indirect finance to agriculture recorded a compound growth rate of only 8.7 per cent per annum during 1969-1974 and of about 19.5 per cent during 1975-84. Over 1969-1984, indirect finance rose at a compound growth rate of about 17.4 per cent per annum.

Apart from the impressive growth in the quantum of total agricultural advances, a more striking feature is the continued change in the composition of these advances. In 1969, of the relatively small amount of total advances to agriculture, nearly more than 60 per cent were by way of indirect finance, and the balance was direct finance. It can be seen from table

2.4 and 2.5, over the years, the share of direct finance into agricultural advances has been steadily rising from 28.5 percent to 67.3 per cent in 1974 and further to 80.5 per cent as on Dec. 1984. This indicates the success of banks' policy of extending direct assistance to agriculture.

6.3 <u>Groupwise distribution of advances</u> :

It is evident from table 2.4 and 2.5 that in 1969, the public sector banks comprising the State Bank group and 14 nationalised Banks accounted for 86.1 per cent of total bank credit for the period. Among the public sector banks, Nationalised banks increased its share in total agricultural credit from 33.1 per cent in 1969 to 63.0 per cent in 1974. As regards direct finance, the nationalised banks share was 54.3 per cent and that of State Bank and its subsidiaries, 20.6 per cent in the year 1969. As far as Indirect finance is concerned the nationalised banks increased their share from 24.6 per cent in 1969 to 63.8 per cent in 1974. The share of nationalised banks in financing agriculture decreased to 49.4 per cent in 1979. But following the nationalisation of six more banks in April 1980, the share of nationalised bank in total agricultural lending increased from 49.7 per cent in 1979 to 58.7 per cent in 1984. The growth rate for the entire period from June 1979 to December, 1984 has worked out to about 28.0 per cent per annum for all commercial banks while the nationalised banks growth rate worked out to 33.0 per cent per annum for the same period. Thus, the nationalised banks have increased their ratio more compared to other banks.

6.4 Regional Rural Banks :

These banks are similar to commercial banks in their organisational set up and methods of operation. However, the area of operation of each RRB is limited to specified district/s (usually one or two districts) and their assistance is intended mainly for target groups of weaker sections. These banks were established in 1975 following realisation that the ethos, attitudes and high cost profile of the commercial banks were not conducive to meeting the credit needs of the rural population specially the weaker sections to the required extent. These banks combine the local fee and familiarity with rural problems which cooperatives possess and the degree of business organisation, ability to mobilise deposits and a modern outlook which the commercial banks possess. RRBs are sponsored by specified commercial banks and the share capital of each RRB (Rs.1 crore authorised and Rs.25 lakhs issued) is provided by Government of India, concerned State government and sponsoring bank in the ratio of 50-15-35. Since 2 October 1975, when the first five RRBs were set up, there has been a substantial expansion in the number of RRBs and at the end of December, 1985 there were 187 RRBs covering 332 districts in the country having a total number of about 12,000 branches. These banks had mobilised deposits to the tune of Rs.11,590 million and their advances aggregated Rs.13,330 million as at the end of Dec., 1985. The share of RRBs in the total outstanding credit for agriculture is approximately 5 per cent. The target groups comprising of small and marginal farmers, artisans, village and cottage industries and other small borrowers account for more than 90 per cent of their lending.[1]

6.5 Disbursement by NABARD

Refinance assistance provided by National Bank

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1. Ojha, P.D. Ibid, p.155.

under schematic lending touched a new height of Rs.892 crores during 1983-84, recording an increase of Rs.189 crores or 27 per cent over the disbursements of 703 crores in the previous year. The cumulative disbursements upto the end of June, 1984 stood at Rs.4376 crores.[1]

The increase in disbursement of refinance during the year was more or less shared by all major states. The highest disbursements were in Uttar Pradesh at Rs.130 crores, followed by Punjab, Andhra Pradesh and Maharashtra with Rs. 110 crores, Rs.89 crores and Rs.82 crores respectively. Commercial Banks and Regional Rural Banks together availed refinance to the extent of 60 per cent during the year, while the share of State Land Development Banks and State Cooperative Banks was 35 per cent and 5 per cent respectively. The comparative agency-wise disbursement can be seen in Table 2.5.[2]

It can be seen from table 2.5 that State Land Development Banks recorded an improvement in the

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1. Annual Report of NABARD, 1983-84, p.23.
2. Annual Report of NABARD, 1983-84, p. 23, 24.

Table 2.6

Agency-wise disbursement

(Rs.crores)

Agency	During 1982-83	1983-84
1. State Land Development Bank	235 (33)	314 (35)
2. Commercial Banks	362 (52)	450 (50)
3. Regional Rural Banks	61 (9)	87 (10)
4. State Cooperative Banks	45 (6)	41 (5)
Total	702 (100)	892 (100)

Figures in brackets are per centage to total.

Source: Annual Report of NABARD 1983-84, p.25.

ailment of refinance at Rs.314 crores as against last year's refinance ofRs.235 crores thus increasing their share in the total refinance from 33 per cent to 35 per cent. Commercial Banks continued to claim major share of refinance at Rs.450 crores against Rs.362 crores in 1982-83 though their proportionate share in the total refinance dropped marginally from 52 per cent in 1982-83 to 50 per cent in the 1983-84.[1] The Regional Rural Banks als

1. Annual Report of NABARD, 1983-84, p.25.

increased their proportionate share slightly in the total re-finance from 9 per cent in 1982-83 to 10 per cent in 1983-84. However, the share of State Cooperative Banks in the total refinance declined marginally from 6 per cent to 5 per cent during the same period.

Some problems regarding Agricultural Financing:

With the adoption of multi-agency approach to the agricultural financing, the following problems have emerged which require the attention of all concerned. Their solution is important for the policy - makers, lending agencies as well as the farmers because they have important implications.

(i) Capital requirements for farm enterprises of different sizes in developed as well as backward regions of the country.

(ii) Impact of credit utilization on farm incomes.

(iii) Determination of standard financial norms for advancinq farm credit in relatively homogenous areas.

(iv) Management of deposit mobilisation in the operation area of a branch.

(v) Farm mechanisation and future requirements of farms for changing technology.

(vi) The lending procedures of commercial banks.

(vii) Increasing demand for agricultural credit and availability of funds to meet the same.

(viii) Monitoring of the progress achieved or difficulties encountered in meeting financial requirements of farms.

Awareness has increased amongst the rural people with the extension of agencies as well as an increase in the operations of banks. The demand for credit, particularly in rural areas, has gone up considerably and the deposit growth of banks has been affected by the availability of other channels of investment with relatively better yields.

The share of rural offices in total deposits and advances at the end of June, 1985 was 13.6 per cent and 13.0 per cent, respectively as against 14.6 and 13.2 per cent in June, 1984 which indicates that in both the mobilization of deposits and deployment of credit the performance of rural offices is unsatisfactory. Further the share of rural offices in total deposits has declined marginally from 14.7 per cent in December, 1982 to 14.1 per cent in June, 1983 while that of semi-urban offices has gone up from 22.6 per cent to 23.5 per cent in the same period. Credit deployment of scheduled commercial banks in rural areas also declined 13.2 per cent in June, 1984 to 13.0 per cent in June, 1985.[1]

The data indicate that the progress of commercial banks in respect of deposit and credit in rural areas during 1984-85 is not satisfactory. All efforts must be made to improve the performance of Commercial banks in mobilisation of deposits and deployment of credit in rural areas.

Table 2.2 shows that the percentage of total agricultural advances to net bank credit was 7.1 per cent in December 1969 and it has increased to 18.1 per cent in 1985,which is not an encouraging figure. This meagre ratio can not full fil the heavy financial requirements of farmers concerning their farm operations and land improvements.

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1. Report on Currency & Finance, RBI, 1985-86, V-I, p. 186-189.

In a agricultural based country like India where more than 70 per cent of people are engaged in agriculture, the share of agriculture in total bank credit (roughly 18.1 per cent) can not be considered satisfactory by any standards.

Table 2.6 indicates that the total agricultural advances of scheduled commercial banks increased from a mere Rs.2,580 million under 5,68,000 borrowal accounts in December 1969 to Rs.81,740 million under 1,51,76,000 borrowal accounts in September, 1985.[1] Similarly the advances of scheduled commercial banks to small scale industries have shown phenomenal increase over the years. They have increased from Rs.3,469 million

Table 2.6

Loans to Agriculture and Small Scale Industries

Year	Agriculture		Small Scale Industries	
	Loan in million	Total No. of borrowers	Loan in million	Total no. of borrowers
Dec. 1969	2,580	5,68,000	3,469	72,000
Sept. 1985	81,740	1,51,76,000	68,031	14,88,000

Source: RBI Bulletin, Feb. 1986

1. Ojha, P.D. R.B.I. Bulletin, Feb. 1986, p.154.

under 72,000 borrowal accounts in December, 1969 to Rs.68,031 million under 14,88,000 accounts at the end of September, 1985 and constituted 15.1 per cent of net bank credit.[1]

It is evident from table 2.6 that upto 1969, the agriculture financing by the commercial banks was not given due importance as compared to the industry despite the fact that the India is a country where a large majority of population is engaged in agriculture and allied occupations. The loan provided by the banks for the agriculture purposes amounted to Rs.2,580 million till December 1969, whereas the financial assistance provided to the small scale industries amounted to Rs.3,469 million in the same period. This makes us feel that despite the fact that both agriculture and small scale industries were included in 'priority' list the small scale industry was given much more importance and patronage as compared to the agriculture. This negligence on the part of the banks acted as barriers in the sound development and growth of agriculture sector in the country. However, some improvement in financing of agriculture by the nationalised banks can

1. Ibid, p.155.

can be noticed in the year, 1985 as the banks financed around Rs.13,749 million in excess to the agriculture sector as compared to the small scale units. But even this improvement is not so encouraging in its totality and this aspects needs the attention of policy makers and directors of nationalised banks.

Summary

India's economy is primarily agro-based. Agriculture forms the backbone of its economy. It is the source of livelihood for more than 70 per cent of its population, It contributes about 38 per cent of its net national product, provides food, supplies raw materials to industry, earns foreign exchange and generates purchasing power and demand for consumer goods in rural areas. The significance of Indian agriculture further arises from the fact that it is the source of supply of raw materials to our leading industries such as: cotton, jute and textile industries, as well as sugar, tea, food products etc., all of which depend on agriculture for the supply of raw materials.

Finance is the backbone of all the industries including agriculture. Inadequate finance is one of the most important reasons for the very slow development of Indian agriculture. Untimely, inadequate and costly finance is available to the Indian farmers. The farmers have not been able to secure adequate finance for their seasonable agricultural operations. Credit plays a most significant role in the development of productivity. It helps in enlarging the net cultivable area by bringing waste and fallow land under cultivation, providing the manure, fertilizers, seeds, protection of land, the provision of irrigation water and making available agricultural implements to the farmers.

One of the major constraints faced by the rural population is finance to work with, besides lack of expert guidance and advice. Majority of the rural population, in the absence of adequate institutional finance to support their productive activities, approach the rural money lenders who never help them in real terms but add their burden of debt to their families. Thus, the landless labour-force is reduced to a weak lot which does not get a handful even by working through the whole day. These illiterate, poor people become the largest group to be cared for in the development process in the country. Before independence, ideas of helping the rural people were mooted to take the shape of 'cooperation' in India. The surveyor of credit to the general populace of the country is still the cooperative credit system. The cooperative financing system did face the bottlenecks like rising overdues, bureaucratism, interference from various quarters, etc. commercial banks joined the scene later. There have been a significant change in the banking scene in the country after the publication of the All India Rural Credit Survey Report in 1954. The takeover of the Imperial Bank of India and its conversion into the State Bank of India in 1955, introduction of social control over banks in 1967 and the subsequent nationalisation of 14 major banks in 1969, the establishment of Regional Rural Banks in 1975, the second stage of nationalisation of six banks in 1980, the setting up of NABARD etc. paved the way for the commercial banks to play a dynamic role in lending to poorer sections of the population. The nationalisation of the banks was an opportunity and a challenge to the banks to cast themselves in a dynamic and innovative role. It is still not too late for the nationalised banks to meet these challenges effectively and boldly. On this depend the best hopes of the country.

Chapter III

Financing of Small and Medium Sized Farms in U.P.

1. Introduction
2. Land Utilization Pattern in U.P.
3. Size of Land holdings in U.P. and their Distribution
4. Role of Credit in Farming
5. Need for Agricultural Credit
6. Pattern of Agricultural Financing in U.P.
    - 6.1 Short-term Agricultural Loans
    - 6.2 Long-term Agricultural Loans
7. Performance of Lead Banks
8. Problems of Lead Banks
9. Problems in Financing Agriculture
10. Suggestions for making Commercial Banks lending more effective.
11. Conclusion.

Financing of Small and Medium Sized Farms in U.P.

Introduction

Uttar Pradesh is the largest state of Indian union in respect of population. It ranks fourth in area next to Madhya Pradesh, Maharashtra and Rajasthan. The geographical area of Uttar Pradesh is 294,413 sq. km. The state is situated in the northern part of the country and is bound by Himachal Pradesh, Haryana, Delhi and Rajasthan on the west and in the north lie the Himalayas. The Gengetic plain covers about two third of the total area of the state, and therefore, it has predominantly an agricultural economy. Agriculture and allied sectors contribute about 60 per cent of the total income of the state. Thus, the growth of agricultural sector is an important indicator of the over all progress of the state's economy.

In all, there are fifty-seven districts in the state which have been further sub-divided into 248 tehsils. For development purposes, the districts have been divided into 895 blocks which are much smaller in area than tehsils, but do not generally cut across the tehsils in the state. These blocks comprise 8,805 Nyaya Panchayats and 74,067 Gram sabhas.

Thus, on an average, each development block consists of 9 to 10 nyaya Panchayats and each nyaya panchayat comprises of eight to nine gram sabhas. Normally one to three inhabited villages form a gram sabha. There are in all 1,12,566 populated villages and 659 towns in U.P.[1]

As per 1981 census, U.P. has a total population of 11,08.62 lakhs with a density of 337 per sq. km. for the state as a whole which is next to Kerala, West Bengal and Bihar. Eighty two per cent of State's population i.e. about 9,09.63 lakhs live in rural areas.[2]

The number of working force engaged in the main occupations in U.P. is 340,52 thousand. Out of which the percentage of cultivators and agricultural labours constitutes 55.7 and 15.2 per cent respectively. About 71.0 per cent of the total working population is engaged in agriculture. These figures confirm that the economy of the state is primarily agrarian in character and occupation. Table 3.1 reveals the occupational pattern of Uttar Pradesh.

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1. Statistical Diary of U.P., 1985, p.1.

2. Ibid., p.31.

Table 3.1
Occupational pattern of U.P. (in thousand)

Occupation	Rural Male	Rural Female	Urban Male	Urban Female	Total	Percentage
Cultivators	17,159	1,329	456	014	18,958	55.7
Agricultural labour	3,877	964	311	025	5,177	15.2
Others	3,455	242	4,331	233	8,262	24.3
Marginal workers	346	1,348	018	043	1,655	4.8
	24,737	3,883	5,116	315	34,052	100.0

Source: Statistical Diary U.P. 1985, page No.31.

Land Utilization Pattern in Uttar Pradesh

Land is the most important natural resource for the development of the economy of Uttar Pradesh. The economic development of the state mainly depends how well the land resources are utilized. Table 3.2 reveals that the 17,262 thousand hectare are net area sown in 1983-84 of the total reporting area 29,755 thousand hectares. From 58 per cent of the reporting area, about 26.2 per cent area is sown more than once in Uttar Pradesh.

Table 3.2

Land Utilization in U.P.

'000 hectares

Items	1978-79	1982-83	1983-84	
1. Reporting area	29,809	29,748	29,755	
2. Forest	5,109	5,120	5,121	17.2%
3. Barren and uncultivable land	1,146	1,120	1,105	3.7%
4. Land put to non-agricultural uses	2,218	2,336	2,352	7.9%
5. Cultivable waste	1,338	1,147	1,150	3.8%
6. Permanent Pastures & other grazing land	298	299	298	1%
7. Land under miscllaneous tree crops and groves	679	568	548	1.8%
8. Current fallow	932	1,176	1,160	3.9%
9. Other fallow	607	756	780	2.6%
10. Net area sown	17,482	17,226	17,262	58.0%
11. Area sown more than once	6,819	7,482	7,806	26.2%

Source : Statistical Diary of U.P., 1985, page 124.

Size of Land Holdings in U.P. and Their Distribution

The data in table 3.3 shows that there are 1,75,638 hundred land holdings in Uttar Pradesh having 1,75,384 hundred hectares operated area under them.

About 70 per cent of the operational holdings in Uttar Pradesh are marginal holdings i.e. holdings below 1.0 hectare. The average size of a holding in this category is just 0.36 hectare. About 16 per cent of the holdings covering an area of about 23 per cent are small holdings. The average size of a holding in this category is 1.37 hectares. About 9% of the holdings of 2 to 4 hectares size occupy about 24 per cent operated area. The average size of holding in this category is 2.72 hectares. About 3.8 per cent of holdings occupying 21.2 per cent operated area, are medium holding and average size of holding in this category is 5.65 hectares.

Table 3.3

Land holdings in Uttar Pradesh (in hectare)

Size of holdings	Number ('00)	Cultivated area
Less than 0.5 hectare	88,075	19,168
0-1	1,23,472	44,300
1-2	28,917	39,628
2-3	10,863	25,978
3-4	5,093	17,405
4-5	2,833	12,555
5-7½	2,816	16,730
7.5-10.0	931	7,907
10.0-20.0	627	7,990

Table 3.3 Contd.

Size of holdings	Number ('00)	Cultivated area
20.0-36.0	60	1,387
30.0-40.0	14	471
40.0-50.0	5	203
50.0 and above	7	830
Total	1,75,638	1,75,384

Source: Agricultural Situation in India, June 1984, page 163.

Table 3.4 shows the distribution pattern of land holdings in U.P. in respect of marginal, small, medium and large farmers.

Table 3.4

The Distribution of Land Holdings in U.P.

Class of Farmers	No. of Farms ('00)	% to total	Cultivated area (Hect)	%age to total
1. Marginal Farmers	1,23,472	70.2	44,300	25.3
2. Small Farmers	28,917	16.5	39,628	22.6
3. Medium Farmers	22,536	12.9	80,575	45.9
4. Large Farmers	713	0.4	10,881	6.2
Total	1,75,638	100.0	1,75,384	100.0

Source: Agricultural Situation in India,June 1984, page 162.

It is evident from table 3.4 that more than 86 per cent of the holdings are small and marginal in size and that the land is unequitably distributed. Small and scattered holdings are a major obstacle in the introduction of scientific method of cultivation in agriculture. Hence, consolidation of land holdings and, prevention of further subdivision of land holdings are required to be undertaken. Also the land reform measures are needed to be expedited. These are essential tasks to be taken up on priority basis.

Role of Credit in Farming

Application of modern farming methods requires greater cash inputs such as chemicals, fertilizers, pesticides and high yielding varieties of seeds, which cannot be fully met from the personal savings of average Indian farmers, hence, the demand for credit is increasing day by day in a developing economy. Credit plays a significant role in rejuvenating the near stagnant agriculture. Its right quantity and right kinds contribute to agricultural development immensely. Its role consists in enlarging the net cultivable area by bringing waste and fallow land under cultivation, providing better manure and chemical fertilizers, protection of lands, the provision of irrigation, making large amounts of fixed and working capital available to agriculture. Right type of credit penetrates technology into agriculture and injects an element of healthy competition and brings commercial considerations in farm operations. It turns agriculture into 'a way of life'. Thus, the role of credit and its demand consists in lying the foundation stone of farm revolution and maintaining the structure built upon it.[1]

The credit needs of farmers may be classified as period-wise, purpose-wise, security-wise and credit-wise. We consider that the period-wise classification has more significance than others. The period-wise classification is as under:

1. Short-term or seasonal credit is one which provides farmers working capital to run their farms efficiently. The period of such loan does not normally exceed 15 months.

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1. Sharma, R.D. Agricultural Finance in India, 1980,pp.16-17.

2. Medium-term credit varies from 15 months to 5 years. It provides farmers capital to purchase livestock and farm machinery.

3. Lond-term credit is one which offers the farmers funds required for purchasing small and medium holdings or to effect permanent improvements. The period of such credit is more than 5 years.

Table 3.5

Classification of credit requirements

Classification	Items of requirements
A. Purpose	
1. Capital expenditure	Purchase of land, land reclamation, construction and repairs of wells, irrigation sources, purchase of farm machinery, their repairs,replacement, addition etc.
2. Current expenditure	Purchase of seeds, mannures, fodder, hire charges of water, machines, wages, rent etc.
3. Family expenditure	Purchase of cloths, utensils, medical and educational expenses litigations, marriage etc.
4. Repayment of debt	Repayment of debts and interest.
B. Period	
1. Short-term credit	Recurring expenses for the period not exceeding 15 months for seasonal crop.
2. Medium-term credit	Expenses on farms assets of temporary nature for the period not exceeding more than 60 months.

Table 3.5 Contd..

Classification	Items of requirements
3. Long-term credit	Expenses of capital nature covering a period of 5 to 20 years.
C. Nature	
1. Consumption credit	Personal and domestic expenses etc.
2. Production credit	Farm expenses of recurring nature and related to agricultural operations.
3. Investment credit	Expenses of capital nature related to agricultural operations.

Source: Kumar, K. Institutional Financing of Indian Agriculture, 1987, p.52.

We have selected the period-wise classification for the purpose of discussion in the present thesis as this classification has more relevance than others.

Need for Agricultural Credit

The need and importance of credit in agriculture can not be overemphasised. Improving agricultural productivity at the initial stage is extremely important as it generates infrastructural raw-material leading to increasing industrial expansion. The backward agriculture is bound to lead to poverty and low-standards of living, especially in countries that are predominently agricultural. Therefore, it is of paramount importance that we should devise adequate and comprehensive plans to effectively handle the agricultural sector. Any mishandling in this respect will be counterproductive and damage our entire economic growth.

Agricultural development is acutely dependent upon external financial support. Historical evidence proves this fact beyond any shadow of doubt. As highly sophisticated agricultural technology has been introduced, so agriculture is fastly growing as a capital-intensive sector of economy. Therefore, huge financial inputs are required to sustain prospects of successful agriculture in our times.

Important changes are taking place on agricultural front. Indian farmers today demand more non-farm resources such as chemical, fertilizers, manures, pesticides, high yielding varieties of seeds and more mechanisation of cultivation etc. These changes on farm front indicate the beginning of a new era in agriculture. Modern farming obviously involves greater cash inputs which cannot be met fully from personal savings by an average Indian farmers.[1] As FAO report put it "The farmers in underdeveloped countries can not expect their needs to come from savings sufficient to provide the minimum necessaries of life-food clothes, and shelter".[2] Without assured and regular flow of credit, the modern farming is totally a 'cry for the mars'. The more backward the agriculture, the greater shall be the need for credit to provide necessary face-lift to agriculture. If agriculture in India has not developed as a profit making industry, surely the reason must be that the new technology was not totally adopted mainly due to paucity of funds.[3]

It should also be borne in mind that the abundance of capital is as much harmful to agrarian growth as the paucity of it. The provision of abundant capital leads to its diversion towards less productive uses. Like industry, agriculture also needs proper dose of credit. It should be supplied to right person in right quantity for right purpose

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1. Kumar, K. Institutional Financing of India Agriculture, 1987, p.50.

2. Documentation prepared for the centre of land problems in Asia and for East, F.A.O. 1955, p.90.

3. Kumar, K. Institutional Financing of India Agriculture, 1987, p.50.

and at the right time.

Credit is the sine quanon for agricultural as well as industry in all countries whether developed o r underveloped. Money-lenders are the main stay of Indian farmers for their credit needs. This is certainly not a very healthy feature especially after the nationalisation of major commercial banks in the country. To avoid and lessen the impact of money-lenders, it is essential that credit should be made available to agriculturists on easy terms both for productive and non-productive purposes. Hence, the institutional credit has more important role to play in Indian economy. It is truism to say that adequate supply of finance is the kingpin of rural development.[1]

Pattern of Agricultural Financing in U.P.

An analysis of comparative position of SBI group and nationalised banks in agricultural finance shows that in 1973, the public sector banks consisting the State Bank of India Group and the 14 nationalised banks accounted for 96.5 per cent of total agricultural credit. Among public sector banks, Nationalised banks share was 62.5 per cent and that of State Bank Group 34.0 per cent in total agricultural ---

1. Kumar, K. Ibid., p.50.

Table 3.6

Comparative Position in Agricultural Finance of State Bank Group, Nationalised Banks and all Scheduled Commercial Banks in U.P.

(Amt. in thousand)

Year ended December	Types of Loans	STATE BANK OF INDIA AND ITS ASSOCIATES		NATIONALISED BANKS		ALL SCHEDULED COMMERCIAL BANKS	
		No. of Accounts	Amount Outstanding	No. of Accounts	Amount Outstanding	No. of Accounts	Amount Outstanding
	Direct	35,9[illegible]0	87,046	34,497	202,109	71,002	297,662
		(50.6)	(29.2)	(48.6)	(68.0)	(100.0)	(100.0)
1973	Indirect	766	145,138	2,583	224,746	3,524	385,585
		(21.7)	(37.6)	(73.3)	(58.3)	(100.0)	(100.0)
	Total	36,706	232,184	37,080	426,855	74,526	683,247
		(49.2)	(34.0)	(49.7)	(62.5)	(100.0)	(100.0)
	Direct	47,754	129,443	41,738	250,448	92,186	390,037
		(51.8)	(33.2)	(45.2)	(64.2)	(100.0)	(100.0)
1974	Indirect	1,086	186,419	5,922	367,274	7,164	568,711
		(15.2)	(32.8)	(82.6)	(64.6)	(100.0)	(100.0)
	Total	50,840	315,862	47,660	617,722	99,350	958,748
		(51.2)	(33.0)	(48.0)	(64.4)	(100.0)	(100.0)
	Direct	75,963	184,113	78,705	322,476	155545	518,400
		(48.8)	(35.5)	(51.0)	(62.2)	(100.0)	(100.0)
1975	Indirect	793	225,646	8,940	364,699	9,907	606,865
		(8.0)	(31.1)	(90.2)	(60.0)	(100.0)	(100.0)
	Total	76,756	409,759	87,645	687,175	165,452	1125,265
		(46.4)	(36.4)	(53.0)	(61.0)	(100.0)	(100.0)
	Direct	175,300	288,488	140,217	484,078	328,706	792,554
		(53.3)	(39.4)	(2.6)	(61.0)	(100.0)	(100.0)
1976	Indirect	6,510	194,820	18,055	386,587	25,794	598,628
		(25.2)	(32.5)	(70.0)	(64.5)	(100.0)	(100.0)
	Total	181,810	493,308	158,272	870,665	354,500	1391,182
		(51.2)	(34.7)	(44.6)	62.6)	(100.0)	(100.0)
	Direct	270,309	465,363	180,612	610,910	470,549	1110,993
		(57.4)	(41.9)	(38.4)	(55.0)	(100.0)	(100.0)
1977	Indirect	4,641	212,944	19,531	352,393	25,608	584,306
		(18.1)	(36.4)	(76.2)	(60.3)	(100.0)	(100.0)
	Total	274,950	678,307	200,143	963,303	496,157	1695,299
		(55.4)	(40.0)	(40.3)	(56.8)	(100.0)	(100.0)

Note: Figures in brackets denote the percentage to total.

Source : Various Issues of Basic Statistical Return, R.B.I.

lending in 1973 in U.P. As regards direct finance, Nationalised Banks share was 68.0 per cent and SBI and its subsidiaries share was only 29.2 per cent in 1973. As far as indirect finance is concerned that share of Nationalised Banks was 58.3 per cent and that of SBI group was 37.6 per cent.

Further the table shows that in 1974 the share of Nationalised Banks was 64.4 per cent and that of the State Bank of India and its subsidiaries was 33.0 per cent in total agricultural lending in U.P. But in 1975, there was a little increase in the share of S.B.I. Group, 3.4 per cent as compared to previous year. In 1977, the total financing accounted for 96.8 per cent and the share of Nationalised Banks was more than that of S.B.I. Group but it slightly decreased as compared to the previous years. There was considerable increase in the share of S.B.I. Group i.e. 6 per cent as compared to 1973.

It can, therefore, be concluded from the above that nationalised banks have played a vital role in agricultural advances in the seventies and they have improved their position considerably, yet available finance is not sufficient to fulfil the requirements of Indian cultivators. Much more needs to be done on this front to run the farms on modern times.

6.1 Short-term Agricultural Loans

Data regarding short term loans, according to size of operational holdings of borrowers in U.P. is given in table 3.7.

It is evident from Table 3.7 that till March, 1978 nearly 72 per cent of the total beneficiaries belonged to the category of marginal/small farmers (i.e. with holdings upto 5 acres each) but their share in total outstanding short-term loans was only 52 per cent. By 1979, though the number of marginal/small borrowers of short-term loans remained nearly the same and their proportion to total outstanding loans decreased to 42.2 per cent. As regards medium/large farmers borrowers (with holdings above 5 acres each), while their share in total amount of short-term loans increased from 48.0 per cent in 1978 to 53.8 per cent in 1979. The average amount of short-term loans per borrowal account of marginal/small farmers was almost the same Rs.457 in 1978 and Rs.449 in 1979, while that

Table 3.7

ScheduledCommercial Banks' Direct Finance to Farmers - Short-term Agricultural Loans According to size of land holdings in Uttar Pradesh

(Amount inlakhs)

Size of holdings	1978 No. of Accounts	1978 Amount Outst-anding	1979 No. of Accounts	1979 Amount Outst-anding	1980 No. of Accounts	1980 Amount Outst-anding	1981 No. of Accounts	1981 Amount Outst-anding	1982 No. of Accounts	1982 Amount Outst-anding
Upto 2.5 acres	-	-	-	-	216,704 (45.6)	845 (22.0)	193,102 (39.8)	1,219 (25.6)	209,098 (36.8)	1468.09 (26.0)
2.5 to 5 acres	249,033 (71.8)	1,139 (52.0)	319,921 (72.2)	1,438 (46.2)	131,681 (27.7)	978 (25.4)	154,976 (32.0)	1,319 (27.7)	167,538 (29.5)	1532.46 (27.3)
5.0 to 10.0 acres	97,639 (28.2)	1,050 (48.0)	123,349 (27.8)	1,675 (53.8)	77,809 (16.4)	1,031 (26.8)	84,257 (17.4)	1,072 (22.5)	111,049 (19.5)	1406.46 (25.0)
Above 10.0 acres	-	-	-	-	49,201 (10.3)	995 (25.8)	52,917 (10.8)	1,149 (24.2)	80,499 (14.2)	1220.91 (21.7)
Total	346,672 (100.0)	2,189 (100.0)	443,270 (100.0)	3,113 (100.0)	475,395 (100.0)	3,848 (100.0)	485,252 (100.0)	4,759 (100.0)	568,184 (100.0)	5627.92 (100.0)

Here the borrower farmers are classified as with size of holdings upto 2.5 acres as marginal farmers, 2.5 to 5.0 acres as small farmers; 5.0 to 10.0 acres as medium farmers and above 10 acres as large farmers.

Note: Figures in brackets denote percentage to total, data related all the public sector banks.

Source: Report on Currency and Finance, R.B.I.

of medium/large farmers rose from Rs.1,075 to Rs.1,358 in the same period. Thus, the increase in the share of medium/large farmers in total short term loans, during the period of 1978 and 1979, is indicative of the progress made by banks in meeting the credit needs of this class of farmers.

This table also reveals that till March 1980, 27.7 per cent of the total beneficiaries belonged to small farmers (i.e. with holding from 2.5 to 5.0 acres) but their share in total outstanding short-term loan was 25.4 per cent. By 1982, the percentage of small borrowers of short-term loans increased to 29.5 per cent and their share in total outstanding short term loans also increased to 27.7 per cent. As regards the medium farmer borrowers (with holding from 5.0 acres to 10.0 acres) the percentage of beneficiaries increased from 16.4 per cent to 19.5 per cent while their share in total amount of short term loans decreased from 26.8 per cent in 1980 to 25.0 per cent in 1982. The average amount of short term loans per borrowal account of small farmer rose from Rs.742 in 1980 to Rs.914 in 1982 while that of medium farmers decreased from Rs.1,325 in 1980 to Rs.1,266 in 1982.

Table 3.8

Scheduled Commercial Banks' Direct Finance to Farmers - Short term agricultural Loan According to size of land holdings in Uttar Pradesh.

(Amt. in lacs)

Size of holdings	1983 No. of Accounts	1983 Amount Outstanding	1984 No. of Accounts	1984 Amount Outstanding
Upto 2.5 acres	2,24,021 (39.4)	1,805 (28.2)	2,27,292 (39.2)	1,986 (28.8)
2.5 to 5.0 acres	1,64,722 (29.0)	1,768 (27.6)	1,77,171 (33.5)	2,166 (31.5)
Above 5.0 acres	1,79,562 (31.6)	2,824 (44.2)	1,75,334 (30.3)	2,726 (39.6)
Total	5,68,305 (100.0)	6,396 (100.0)	5,79,797 (100.0)	6,879 (100.0)

Note: Figures in brackets denote the percentage to total. In above table the borrower farmers are classified as with size of holdings upto 2.5 acres as marginal farmers, 2.5 to 5.0 acres as small farmers, 5.0 to 10.0 acres as medium farmers and above 10.0 acres as large farmers.

Source : Report on Currency & Finance, .R.B.I.

Table 3.8 shows that till June 1983, 39.4 per cent of the total beneficiaries belonged to the marginal farmers but their share was only 28.2 per cent. By 1984, the number of marginal borrowers remained nearly the same and their proportion to total borrowal accounts also remained almost the same. The number of small farmer borrowers increased from 29 per cent to 33.5 per cent and their share in total amount of short term loans also increased from 27.6 per cent in 1983 to 31.5 per cent in 1984. The average amount of short term loans per borrowal account of marginal farmer slightly increased Rs.805 in 1983 to Rs.873 in 1984 while that of small farmer rose from Rs.1073 to Rs.1222 in the same period.

As far as medium/large farmers are concerned till June 1983, 31.6 per cent of the total beneficiaries belonged to the groups of medium/large farmers (i.e. with holdings above 5 acres) but their share in total outstanding short term loans was 44.2 per cent. By 1984, the number of medium/large borrowers of short-term loans decreased from 31.6 per cent to 30.3 per cent and their proportion to total borrowal accounts also decreased from 44.2 per cent to 39.6 per cent.

6.2 Long-term Agricultural Loans

An analysis of long term loans, according to size of operational holdings of borrowers is described below:

It can be seen from table 3.9 that upto March 1978, nearly 51.5 per cent of the total beneficiaries

Table 3.9

Scheduled Commercial Banks' Direct Finance to Farmers - Long Term Agricultural Loans According to size of land holdings in Uttar Pradesh

(Amount in Rs. lakhs)

Size of holdings	1978 No. of Accounts	1978 Amount Outstanding	1979 No. of Accounts	1979 Amount Outstanding	1980 No. of Accounts	1980 Amount Outstanding	1981 No. of Accounts	1981 Amount Outstanding	1982 No. of Accounts	1982 Amount Outstanding
Upto 2.5 acres	-	-	-	-	59,647 (31.8)	1,581 (8.7)	89,300 (36.4)	2,090 (8.7)	116,430 (31.1)	3955.28 (12.8)
2.5 to 5.0 Acres	56,685 (51.51)	2,184 (23.3)	87,234 (55.0)	2,955 (22.0)	57,153 (29.5)	2,229 (12.3)	77,461 (26.3)	3,616 (15.1)	92,059 (24.6)	4407.00 (14.2)
5.0 to 10.0 "	53,351 (48.5)	7,193 (76.7)	71,561 (45.0)	10,418 (78.0)	32,469 (16.8)	1,886 (10.4)	62,271 (21.2)	3,685 (15.4)	79,634 (21.3)	4487.75 (15.5)
Above to 10.0 "	-	-	-	-	44,152 (22.8)	12,118 (66.9)	64,965 (22.1)	14,542 (60.8)	86,205 (23.0)	18078.88 (58.5)
Total	110,036 (100.0)	9,377 (100.0)	158,795 (100.0)	13,373 (100.0)	193,421 (100.0)	18,114 (100.0)	293,997 (100.0)	23,933 (100.0)	374,328 (100.0)	30928.91 (100.0)

Note: Figures in brackets denote the percentage to total. The borrower farmers are classified as with size of holdings upto 2.5 acres as marginal farmers, 2.5 to 5.0 acres as small farmers, 5.0 to 10 acres as medium farmers and above 10 acres as large farmers.

Source: Report on Currency and Finance, R.B.I.

belonged to the category of marginal/small farmers (i.e. with holdings upto 5 acres each) but their share in total outstanding long-term loans was only 23.3 per cent. By 1979, though the number of marginal/small borrowers of long term loans increased from 51.5 per cent to 55.0 per cent but their share in total outstanding amount decreased from 23.3 per cent in 1978 to 22 per cent in 1979. The average amount of long term loans per borrowal account of marginal/small farmer decreased from Rs.3,852 in 1978 to Rs.3,387 in 1979 while that of medium/large farmer rose from Rs.13,482 to Rs.14,558. Thus, the increase in the share of medium/large farmers in total long term loans is indicative of the progress made by banks to meet credit needs of this class of farmers.

In 1980, the 31.8 per cent of the total beneficiaries belonged to marginal farmers but their share of total long term loan was 8.7 per cent only. By 1982, though the number of marginal borrowal decreased while their share in total outstanding of long term loans increased from 8.7 per cent in 1980 to 12.8 per cent in 1982. The average amount of per borrowal account of marginal farmer increased from Rs.2,650 in 1980 to Rs.3,397 in 1982.

In 1980, the 29.5 per cent of total beneficiaries belonged to the category of small farmers (i.e. with holding 2.5 to 5.0 acres) and their share in total outstanding of long term loans was 12.3 per cent. By 1982, the number of beneficiaries of small farmers decreased from 29.5 per cent in 1980 to 24.6 per cent in 1982 while the share in total outstanding amount increased from 12.3 per cent in 1980 to 14.2 per cent in 1982. The average amount of small farmers increased Rs.3,900 per borrowal in 1980 to Rs.4,787 in 1982.

Regarding medium farmers, the 16.8 per cent of total beneficiaries belonged to the category of medium farmers and their share was only 10.4 per cent in total outstanding in 1980. By 1982, though the number of beneficiaries of medium farmers increased from 16.8 per cent in 1980 to 21.3 per cent in 1982 and their share of the borrowals in total outstanding also increased from 10.4 per cent to 15.5 per cent in the same period. But the average of per borrowal decreased from Rs.5,808 in 1980 to Rs.5,635 in 1982. As regard large farmers, the 22.8 per cent of total beneficiaries belonged to this category and their share in total outstanding amount of long-term loans was 66.9 per cent. By 1982, the proportion of beneficiaries was almost the same as in 1980 but their share in total outstanding amount of long term loans decreased from 66.9 per cent to 58.5 per cent in 1982. The average amount of per borrowal account of large farmer decreased from Rs.22,384 in 1980 to Rs.20,971 in 1982.

The average amount of long-term loans per borrowal account of marginal/small farmers increased Rs.2,650 to Rs.3,397 and Rs.3,900 to Rs.4,787 over the period of 1980 to 1982 while that of medium/large farmers decreased from Rs.5,808 to Rs.5,635 and Rs.27,446 to Rs.20,971 respectively. Thus, the increase in the share of marginal/small farmers in total long term loans, over the period of 1980-1982, is indicative of the progress achieved by banks in meeting the credit needs of this class of farmers. These trends are no doubt, encouraging.

It is evident from table 3.10 that till June 1983, these were 25.5 per cent of marginal farmers (i.e. withholdings upto 2.5 acres each) but their share in total outstanding was 13.0 per cent only. By 1984, the number of marginal farmers increased from 25.5 per cent

Table 3.10

Scheduled Commercial Banks' Direct Finance to Farmers - (Long Term Agricultural Loan According to size of land holdings in Uttar Pradesh).

(Amount in lakhs)

Size of holdings	1983 No. of Accounts	1983 Amount Outstanding	1984 No. of Accounts	1984 Amount Outstanding
Upto 2.5 acres	1,14,192 (25.5)	4,671 (13.0)	1,59,711 (35.4)	6,018 (14.3)
2.5 to 5.0 acres	1,12,655 (25.1)	5,134 (14.4)	1,36,197 (30.2)	7,831 (18.6)
Above 5.0 acres	1,94,252 (43.4)	25,947 (72.6)	1,55,514 (34.4)	28,322 (67.1)
	-	-	-	-
Total	4,48,099 (100.0	35,752 (100.0)	4,51,422 (100.0)	42,171 (100.0)

Note: Figures in brackets denote the percentage to total.

Source: Report on Currency & Finance, R.B.I.

to 35.4 per cent. As regards small farmers, the 25.1 per cent of total beneficiaries belonged to the category of small farmers and their share in total outstanding was 14.4 per cent. By 1984, the number of small farmers increased from 25.1 per cent to 30.2 per cent and their share in total outstanding amount also increased from 14.4 per cent to 18.6 per cent. The average amount of long-term loans per borrowal increased from Rs.4,557 to 5,749 over the period of 1983 to 1984.

Table 3.10 also shows that till 1983, 43.4 per cent of total beneficiaries belonged to the group of medium/large farmers (i.e. with holdings above to 5 acres) and their share in total outstanding amount was 72.6 per cent. By 1984, the ratio of medium/large farmers decreased from 43.4 per cent to 34.4 per cent and also their proportion in total outstanding amount of long-term loans decreased from 72.6 per cent to 67.1 per cent. The average amount of per borrowal account of medium/large farmers increased from Rs.13,357 to Rs.18,211 over the period of 1983 to 1984.

Thus, the increase in the share of small, farmers in total long-term loans, over the period of 1983-84, is indicative again of the progress made by banks in meeting the credit needs of this class of farmers. These efforts of banks are indeed commendable and must continue to lift the Indian farmers above the poverty line and to meet the needs of rural development.

Performance of Lead Banks

The concept of "lead bank" came into prominence towards the beginning of seventies' when the Reserve Bank of India introduced the lead bank scheme throughout the country in December 1969, as a result of the recommendations made by the Gadgal Study Group and Nariman Committee. Under this scheme, the central bank declared a lead bank in each district of the country with a wider responsibility of accelerating banking development in the area of its operation. In this respect, the study group mentioned:

"The lead bank will be expected to assume the major role in the development of banking and credit in the allocated districts. At the same time, there is clearly no intention that the lead bank should have a monopoly of banking business in a district. The bank, assigned the lead role, is thus expected to act as the consortium leader and after identifying through survey, areas reviewing branch expansion and areas suffering from credit gap, it should invoke the cooperation of other banks operating in the district for opening branches as well as for meeting credit needs".[1]

1. Gadgil Study Group, R.B.I., Bombay.

There are nine lead banks operating in Uttar Pradesh namely; Bank of Baroda, Bank of India, Canara Bank, Punjab National Bank, Syndicate Bank, Union Bank of India, Allahabad Bank, State Bank of India and central Bank of India.

Lead banks were allotted two major responsibilities to prepare credit plans at district or block level, and to implement them accordingly in their lead districts. As such, they were expected to seek cooperation of other banking institutions in their lead districts. In this sense, banking in India, obviously, has provided a better instrument for economic development at the grass-root level, and has come closer to achieve socio-economic objectives of nationalisation.[1]

In the first phase, these banks achieved good progress in carrying out surveys in their lead district to have a view to the district economy, and in preparing district credit plans/annual action plans in their respective lead districts. In the early stage, it was considered a Herculean task for lead banks for want of

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1. Kulshretha, U.S. The Journal of the Indian Institute of Bankers, Oct-Dec. 1985, p.227.

training and expertise. With the result, first credit plans were named as "lead banks plans" or "priority sector plans". But now with a long experience, appropriate training and expertise of personnel, they have prepared fresh credit plans with the cooperation of state government agencies, specially the planning department agencies at the district level.[1] In this respect their performance is encouraging.

Problems of Lead Banks

The lead banks have experienced a number of problems in implementing certain schemes in their lead districts during the last decade. They generally suffer from organisational and administrative problems, lack of inputs and infrastructure facilities, lack of awareness among rural people and indifferent attitude of bankers, poor maintenance of statistical information slow progress. in the recovery of loans etc. The study group on priority sector lending and the 20-point economic programme, set up by the Reserve Bank of India in March 1980, laid emphasis on the mounting overdues of bank loans, particularly in the priority

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1. Kulshrestha, U.S. Ibid, p.227.

sectors. The study group observes "Unless the loans were properly recycled, the ability of banks to provide additional finance to these sectors would be impaired".[1]

The most important constraints of these banks is the lack of coordination and monitoring mechanism. In fact, the lead banks have achieved partial success in providing a monitoring mechanism to review the branch-wise progress of lead bank scheme, as the coordinator banks fail to submit their basic statistical returns to the lead bank office in time. In this regard, a lead bank may be considered merely the driver of a bullock-cart which has wheels and oxen, but does not have their rein in its hand. As such, they need to have some sort of special powers in order to control coordination banks, as also to set up an effective monitoring mechanism to review the branch-wise progress of the banks.[2]

Problems in Financing Agriculture

The difficulties, faced by Commercial banks in financing agriculture are discussed below:

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1. R.B.I. Study Group on Priority Sector Lending, March, 1980.
2. Kulshreshta, U.S. Ibid., p.232.

1. Difficulty in obtaining Records and essential Documents :

It is difficult for commercial banks to process any loan application without getting extracts from revenue records and other certificates and documents. The difficulties in obtaining these documents arise due to unhelpful attitude of revenue officials, absence of uptodate records and red-tapism. Many commercial banks have experienced difficulties in getting 'No dues', non-encumbrance and ground water certificates as well as clean title deeds.[1]

2. Unequal position of Commercial Banks vis-a-vis Cooperative Banks.

Commercial Banks have been facing problems in implementing their credit scheme because of their unequal position vis-a-vis the cooperative credit institutions. They are also at a disadvantage in comparison to cooperatives in matters of higher stamp duties on documents creating the mortgages, and fees levied for registering mortgages. Also commercial banks are required to pay fees for extracts from

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1. Kumar, K. Institutional Financing of Indian Agriculture, 1987, p.133.

revenue records while the cooperations were exempted in this regard.[1]

3. <u>Lack of Physical Infrastructure and Marketing Facilities</u>

Inadequate development of infrastructural facilities, particularly roads, in a big handicap in implementing agricultural credit schemes specially in the hilly and interior regions. Also Marketing facilities are inadequate in terms of availability of marketing yards, godowns and cold storages. Due to unsatisfactory and ineffective marketing arrangements, prices received by agricultural borrowers are often low and uncertain. All this adversely affects the recovery of loans by commercial banks from agriculturists.

4. <u>Lack of Trained Staff</u>

Some commercial banks complained that in matter of implementing their Agricultural Credit Schemes, they are constrained by non-availability of adequate and competent staff. Because of low volume of agricultural advances in some of the rural branches, it is obviously uneconomic to provide trained technical staff which is

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1. Ibid., p.133.

crucially needed to supervise agricultural credit schemes. Often commercial banks staff lack the right attitude towards providing agricultural advances because of the conventional inspection and long procedure.[1]

5. Lack of Demand for Agricultural Credit

It is pointed out that in some regions, the effective demand for agricultural credit is much lower than the expected demand. This is because new agricultural technology has not yet reached in these regions, and holdings are very small and many cultivators are in a position to take only one crop per year. It is also observed that there is often severe competition among commercial banks, big agriculturists and traders in lending money to small farmers for carrying on their agricultural operations.[2]

6. Lack of coordination and support from Development Programme -

This is another constraint faced by the Commercial banks. Successful implementation of credit schemes for purposes like minor irrigation crucially

1. Kumar, K. Ibid, p.133.

2. Ibid., p.133.

depends on the development programmes of the state government. In case of minor irrigation ground water surveys, rural electrification and creation of drainage facilities are considered crucial.[1] But in case of India sewarage and drainage facilities are particularly lacking in many areas.

7. Difficulties in the Recovery of Loans and in matter of overdues

Main causes rêsponsible for poor recovery of agricultural loans and overdues, as reported by a number of commercial banks, are as follows:

(a) Natural calamities like floods, droughts and epidemics resulting in the death of hundreds of cattle etc;

(b) Defective appraisal of loan applications of agriculturist in terms of assumptions made regarding prospective yield, inputs, costs and output prices etc;

(c) Unsatisfactory marketing arrangements resulting in agriculturist borrowers getting lower than expected prices;

(d) Unforeseen expenses of borrowers due to sickness, religious and social ceremonies, litigation and

1. Kumar, K. Ibid., p.134.

such other unproductive developments in the family;

(e) Wilful default and negligence on the part of certain agriculturists;

(f) Lenient and appeasement policy of government due to political pressures etc.[1]

Suggestions for Making Commercial Banks' Lending More Effective

Commercial banks must evolve new strategies which could affectively meet the challenges of today and tomarrow.

Some of the suggestions for evolving new strategy for commercial banks in the sphere of agricultural finance may be outlined as follows -

1. Assessment of the Credit Programmes at the Sanctioning Stage

Commercial banks should make their appraisal procedure more effective. It is suggested that the agricultural assistance programmes should be critically assessed at the time of sanctioning and while assessing the credit programmes, the following points should be carefully taken into consideration.

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1. Kumar, K. Ibid, p.134.

(i) economic viability of the scheme;

(ii) repayment schedule of loans;

(iii) correlation with infrastructural support

(iv) staff requirement for the implementation of the programmes, and

(v) effective monitoring mechanism.

2. Legislation on lines Recommended by the Talwar Committee

The excessive emphasis of commercial banks on time consuming formalities and procedures entailing several certificates and documents will remain there as long as they do not functionally discharge their duties as cooperative credit institutions. The expert committee, therefore, has recommended that all provisions of the model bill as recommended by the Talwar Committee should be implemented and steps should be taken to effectively implement the enactment.

3. Land Records and Revenue Pass Book

There is considerable delay at the level of sanctioning of loan application of farmers. It can easily be avoided if land records are properly maintained and are the periodically revised, therein clearly demarcating the rights of different categories of cultivators including tenants.

4. Simplification of Procedures

There is a strong case for simplifying and standardising the loan application forms by commercial banks. That would go a long way in reducing the number of documentation formalities. It is necessary for the convenience of rural people who are generally illeterate.

5. Creation of Task Force

If we have to effectively deal with the problems of implementation of agricultural assistance programmes there is a need to create a task force to monitor them.

The proposed task force should consist of the District Collector (as Chairman), a representative of the lead bank, a senior officer of the collectorate and a representative of the farming community. The task force should have a monthly meeting to seek the redressal of the specific operational problems brought to the notice of task force by branches of commercial banks.

6. Crop Insurance Schemes

As agriculture happens to be virtually a gamble because of its seasonal nature, one effective way to promote agricultural assistance and crop loan is 'crop insurance'. Crop insurance schemes should be increasingly implemented in agricultural sector so that the risk in providing credit is minimised.

7. Formation of Local Advisory Committee

It is suggested that there should be a local advisory committee attached to every rural branch of commercial bank. It should be comprised of progressive farmers and agricultural experts to review the overall position of agricultural credit in a particular area and to offer suggestions for effective implementation of schemes of agricultural credit.

8. Monitoring and Evaluation of Credit Schemes

This is very important that commercial banks should establish the monitoring and evaluation cells. The objective of monitoring of lending programmes, however, should not be merely to supervise the progress in lending to achieve the targets. It should also be able to gather information on the problems faced in implementing the schemes. In other words, the monitoring system should also provide for feed back mechanism.

9. <u>Improving Recovery and reducing overdues</u>

The following suggestions for improving the recovery and reducing the overdues of agricultural loans are given:

i) Dues in respect of agricultural credits by commercial banks should be treated at par with the arrears of land revenues.

ii) Helping Commercial banks in the recovery of overdues by appointing special officers by the State government.

iii) There should be no intervention by the civil courts even if commercial banks dispose of the security.

iv) Defaulters of commercial banks should not be given any other loans by the state government.

v) State government should share the responsibility in the recovery of agricultural loans.

vi) The banks should be in continuous touch with marketing agencies.

vii) Stern legal action against wilful defaulters must be taken.

Conclusion

Uttar Pradesh is the largest state of Indian Union in respect of population and its population is predominantly agricultural. About 71 per cent of the total working population is engaged in agriculture. The economy of the State is primarily agrarian in character and occupation. The total reporting area of Uttar Pradesh is 297,55 thousand hectares out of which only 17,262 thousand hectares are net area sown in 1983-84.

There are many problems due to fragmentation of land holdings in Uttar Pradesh. About 87per cent farmers belong to the category of Marginal and small farmers (with the holding up to 5.0 acres of land), remaining comes in the category of medium and large farmers. It is difficult to apply modern techniques on small and fragmented holdings.

The needs of modern farming are changing with changing technology. Modern farming requires more cash inputs like fertilizers,pesticides, high yielding varieties of seeds, irrigation water etc. which are difficult to arrange by average farmer from their own savings. Thus, provision of adequate finance is essential to meet the growing requirements of the Indian farmers.

Banks were nationalised mainly to provide financial assistance to the needy farmers. The public sector banks provide two types of loan i.e. Direct and Indirect. Direct finance is provided to farmers for agricultural operations and indirect finance includes advances to State sponsored corporations, agencies for loan lending to weaker sections of societies, farmers service societies, large-sized advasi multi-purpose societies etc.

The data in this chapter show that in March 1980 nearly 28 per cent of the total beneficiaries belonged to the category of small [redacted] farmers. (i.e. with holdings from 2.5 to 5.0 acres), whereas medium farmers were 16.4 per cent only. The share of small farmers in total outstanding short-term loan was 25.4 per cent. As regards the medium farmers borrowers (with holdings from 5.0 acres to 10.0 acres) the percentage of beneficiaries increased from 16.4 per cent in 1980 to 19.5 per cent in 1982 while their share in total amount of short term loans decreased from 26.8 per cent in 1980 to 25.0 per cent in 1982.

The average amount of short term loans per borrowal account of small farmers rose from Rs.742 in 1980 to Rs.914 in 1982 while that of medium farmers decreased from Rs.1,325 in 1980 to Rs.1,266 in 1982.

It is clear from the data provided in this chapter that in June 1983, the 25.1 per cent of the total beneficiaries belonged to the Group of Small farmers and their share in total outstanding of long term loan was 14.4 per cent. By 1984, the number of small farmers increased 25.1 per cent to 30.2 per cent and their share in total outstanding amount also increased from 14.4 per cent in 18.6 per cent. The average amount of long term loans per borrowal increased from Rs.4,457 to Rs.5,749 over the period of 1983-84. Hence, the increase in the share of small farmers in total long term loans over the period of 1983-84 is indicative of the progress made by banks in meeting the credit needs of this class of farmers. The progress is undoubtedly good but more efforts are called for in this direction.

Although considerable change can be noticed in banking sector's performance towards agriculture, but they are fulfilling the credit needs of the Indian farmers to a limited extent. They are required to pay more and more attention towards agriculture because the contribution of modern agriculture can not be overemphasised in contemporary India. The government should declare agriculture as an industry.

Chapter IV

Impact of Credit Supplies on the Productivity of Farms (Survey Results)

1. Introduction
2. Sample Unit
3. Changes in Cropping Pattern
4. Changes in the level of Productivity
5. Per acre Net Income of Sample Farmers
6. Utilisation of Incremental Income by borrower farmers
7. Conclusion

Chapter IV

Impact of Credit Supplies on the Productivity of Farms

Introduction : Finance is the life-blood for an agricultural economy like ours. Providing appropriate agricultural credit for farm operations is extremely important for revitalisation of agricultural production. The availability of finance for carrying out agricultural operations assumes special importance in the context of India where agricultural sector is mostly comprised of small farmers who are contineously short of funds. If this stupendous and long-drawn out problem is not tackled with vigour as well as vision, India will continue to lag behind in agricultural production and that will consequently till upon its industrial progress. Therefore, availability of credit together with its proper utilisation should form the basis of future agricultural planning in this country, if rural India is to be brought out of centuries - old poverty and squalor.

Agarwal has rightly pointed out agriculture needs financing for its various production-processes: Purchase of inputs, sale of output, improvement in land, development of farms etc. All these involve payments for which money has to be found out. These needs are there even in the case of agriculture run on traditional lines. But these are much more in relation to agriculture which is in the process of modernisation".[1]

In this Chapter an attempt has been made to assess the impact of bank credit on the economy of farmers. The purpose of such analysis is to examine the net additional benefits drived by farmers by shifting over to commercial banks scheme. The basic objective of introducing Commercial banks in agricultural finance has been to help farmers to attain higher farm productivity and incomes through large output.

For the purpose of present study, Uttar Pradesh has been divided into three regions, Western, Centre and Eastern, we have selected for representative districts, namely, Saharanpur and Muzzaffarnagar from Western region, Badaun and Aligarh from Centre region, Basti and Faizabad from eastern region. 600 sample farmers have been selected from these representative districts. The sample unit has been further stratified into small farmers, medium farmers and large farmers

1. Agrawal, A.N. Indian Agriculture, 1981, p.344.

in the ratio of 3:2:1 respectively (due to predominance of small and medium farmers in the State agriculture scene). Of the total 300 participant borrowers and 300 non-participant borrowers have been questioned through questionnaire and personal interviews. Two different questionnaire were prepared for participant and non-participant borrowers (See Appendices I and II).

The basic target of the bank loans must be realisation of higher incomes by farmers through greater agricultural production. The farm financing could be made more effective if the various ingredients of farm production viz; tillage operation, improved seeds, fertilizers, plant protection and irrigation etc; are provided in combination with each other. Any isolated attempt renders less than optimum utilisation of its productive potentialities." It has been found that tillage contributes to the over all yield to the extent of 2.5 per cent, improved seed 5 to 10 percent, and interculturing 10-20 per cent, fertilizers and irrigation 10-20 per cent each, and plant protection 5-10 per cent. However, the full impact of these improved practices are realised only why they are utilized in combined optimum degree and doses. It has been estimated that all these ingredients combined together make for an increase of 50 to 100 per cent in the over all yield. This underlines the necessity of providing bank credit as a package deal to farmers. That is to say, if a farmer has been sanctioned land development credit, he should also be provided with irrigation loans and crop loans so that productive capacity of the farm unit may have fuller utilisation".[1] In Uttar Pradesh, it has been found that bank lending has been scattered. Package method of financing agriculture is not found in U.P. This has further reduced the impact of bank financing on overall farm production and agricultural development.

Delivering the 17th Shri Ram Memorial Lecture on "our agriculture future" Dr. M.S. Swaminathan, former member of the Planning Commission said, "We are now reaping the benefit of only about 2 to 30 per cent of the production potentiality available at the current level of technology in the field of agriculture"[2]. The importance of credit in agriculture cannot be over emphasised. Availability of appropriate credit facilities is bound to introduce advanced technology

1. Kumar, K. Institutional Finance of Indian Agriculture, 1987, p.177.

2. The Hindustan Times, dated January 17th, 1982.

into agricultural sector and thereby generate higher farm-income. A study conducted in Hyderabad district of Andhra Pradesh, has shown that there was rather a possibility to earn in improved technology with the help of credit.[1] In the following pages, the data gathered with the help of two different questionnaires from six selected districts of U.P., has been analysed and important conclusions have been drawn.

Sample Unit

The Sample Unit of our study is shown in table 4.1 as follows:

Table 4.1

The Break up of Sample Unit

Type of Farmer	Participant (Number)	Non-Participant (Number)	Selected Districts
Small	150	150	Saharanpur
Medium	100	100	Muzzaffarnagar
Large	50	50	Aligarh
			Badaun
			Faizabad
			Basti
Total	300	300	6 Districts

1. Singh, S.K., Ramanna, R., the role of credit and Technology in increasing income and employment on small and large farms in Western Regions of Hyderabad District" 1974.

The main commercial banks financing agriculture in district Saharanpur are Punjab National Bank, State Bank of India, United Commercial Bank, Central Bank of India, Canara Bank and Dena Bank, we have further stratified the bank sample units as :

Punjab National Bank	Lead Bank of district
State Bank of India	Big Bank
United Commercial Bank	
Central Bank of India	
Oriental Bank of Commerce	Nationalised Banks
Canara Bank	
Dena Bank	

The agriculture of district Muzaffarnagar is mainly financed by such banks as; Punjab National Bank, Central Bank of India, State Bank of India, Oriental Bank of Commerce, Union Bank of India, We have further stratified the bank sample units as :

Punjab National Bank	Lead Bank of District
State Bank of India	Big bank
Central Bank of India	
Oriental Bank of Commerce	Nationalised Banks
Union Bank of India	

The financing of agriculture in Aligarh District is mainly done by : Canara Bank, State Bank of India, Allahabad Bank, Punjab National Bank. We have further classified the bank sample unit as:

Canara Bank	Lead Bank of District
State Bank of India	Big Bank
Union Bank of India	
Syndicate Bank	
Allahabad Bank	
Punjab National Bank	Nationalised Banks
Central Bank of India	

The agricultural finance of Budaun district is mainly supplied by such banks as Punjab National Bank, State Bank of India, Bank of Baroda, Central Bank of India, Allahabad Bank, Bareilly Corporation Bank, The Banaras State Bank. We have further stratified the bank sample unit as:

Punjab National Bank	Lead Bank of District
State Bank of India	Big Bank
Bank of Baroda	
Allahabad Bank	Nationalised banks
Central Bank of India	
The Banaras State Bank	Scheduled Bank
Bareilly Corporation Bank	

The Agricultural credit and loans of District Faizabad are mainly offered by Bank of Baroda, State Bank of India, Punjab National Bank, Allahabad Bank, Union Bank of India, Oriental Bank of Commerce. We have further classified the bank sample unit as :

Bank of Baroda	Lead Bank of District
State Bank of India	Big Bank
Punjab National Bank	
Allahabad Bank	Nationalised Banks
Union Bank of India	
Oriental Bank of Commerce	

The financial crêdit and assistance related to the agriculture of District Basti is given by such banks as; State Bank of India, Punjab National Bank, Bank of Baroda. We have further stratified the bank sample unit as :

State Bank of India	Lead Bank of District
Central Bank of India	Big Bank
Union Bank of India	
Punjab National Bank	Nationalised Banks
Bank of Baroda	
Allahabad Bank	

In the transformation of traditional agriculture into a modern and self-supporting one, the key part played by credit can never be overemphasised. The greater the agricultural backwardness, the greater the need for pumping more and more agricultural credit into farm operations with a view to update and modernise it. It goes without saying that a structural transformation of Indian agriculture requires on the one hand, more sophisticated managerial techniques on the part of farmers and on the other hand availability of adequate and cheap credit facilities to them. The transformation of Indian agriculture is certain if these two moves operate simultaneously and efficiently.

The above results indicate the favourable impact on the economy of particular region. The benefits occuring to participating and non-participating borrowers are analysed on the basis of the following criteria:

Changes in Cropping Pattern

Cropping pattern is largely a function of irrigation and water facilities. If there is an assurance of irrigation facilities, agriculturists are bound to switch over to more remunerative crops like high yielding varieties of paddy, wheat, maize and sugarcane etc. Any substantial change in cropping pattern not only entails a greater investment into irrigation facilities but also needs greater credit funds to enable the farmers to take to advanced technology. The impact of bank finance on cropping pattern of sample farmer-borrowers in the different districts of Uttar Pradesh is shown in the following tables.

Table 4.2

Changes in Cropping Pattern of Borrower Farmers of District Saharanpur

(In %age of total croped area)

Year	HYV	Improved varieties	Others	Total
1980-81	39.0	51.0	10.0	100%
1981-82	52.2	46.8	1.0	100%
1982-83	63.8	36.2	0	100%
1983-84	78.2	21.8	0	100%
1984-85	85.0	15.0	0	100%

It is clear from table 4.2 that with the availability of farm credit and consequent increase in irrigation facilities, the area under high yielding varieties increased from 39.0 per cent in 1980-81 to

85.0 per cent in 1984-85. At the same time, the area under improved varieties decreased from 51.0 per cent to 15.0 per cent and area under other decreased from 10 per cent to zero in 1980-81 to 1982-83. The increase in the average under high yielding varieties is a conclusive proof that the agricultural financing by banks has helped in a greater degree in the adoption of new technology in Saharanpur district.

Table 4.3

Changes in Cropping Pattern of Non-borrower Farmers in District Saharanpur

(in % of total cropped area)

Year	HYV	Improved varieties	Others	Total
1980-81	19.8	61.2	19.0	100%
1981-82	22.2	59.0	18.8	100%
1982-83	25.8	58.9	15.3	100%
1983-84	29.3	58.2	12.5	100%
1984-85	31.4	56.8	11.8	100%

The changes in the cropping pattern of non-borrower farmers make the contrast more striking. The data presented in table 4.3 show that the area under high yielding varieties increased 19.8 per cent to

31.4 per cent in 1980-81 to 1984-85. Cropping pattern of non-borrower farmers underwent a marginal shift and whatever shift has occured it has been more due to irrigation facilities extended by the neighbouring farmer borrowers or due to some minor irrigational projects completed under different plans in the district of Saharanpur.

Table 4.4

Changes in Cropping Pattern of Borrower Farmers of Distt. Muzaffarnagar

(In %age of total cropped area)

Year	HYV	Improved varieties	Other	Total
1980-81	38.0	50.2	11.8	100%
1981-82	50.0	46.0	4.0	100%
1982-83	61.3	37.0	1.7	100%
1983-84	72.4	27.6	0	100%
1984-85	84.8	15.2	0	100%

It is evident from table 4.4 that with the financial assistance to agricultural sector and subsequent increase in irrigation facilities, the area under high yielding varieties increased from 38.0 per cent in 1980-81 to 84.8 per cent in 1984-85. During the same period, the area under improved varieties decreased from 50.2 per cent to 15.2 per cent and the area of other crops also decreased from 11.8 per cent in 1980-81 to zero in 1983-84.

Table 4.5

Changes in Cropping Pattern of Non-borrower farmers in Distt. Muzaffarnagar

(In %age of total cropped area)

Year	HYV	Improved varieties	Other	Total
1980-81	18.3	61.0	20.7	100%
1981-82	21.0	60.2	18.8	100%
1982-83	24.2	59.8	16.0	100%
1983-84	26.3	58.5	15.2	100%
1984-85	30.0	56.9	13.1	100%

So far as non-borrower farmers are concerned, the changes in their cropping pattern make the contrast highly significant, The data presented in table 4.5 show that the area under high yielding varieties increased from 18.3 per cent in 1980-81 to 30.0 per cent in 1984-85. Only a marginal shift has occured in the cropping pattern of non-borrower farmers and that too because of irrigation facilities provided under different channels.

Table 4.6

Changes in Cropping Pattern of Borrower Farmers in Aligarh District

(In %age of total cropped area)

Year	HYV	Improved varieties	Others	Total
1980-81	30.8	54.0	15.2	100%
1981-82	38.6	50.1	11.3	100%
1982-83	45.0	51.2	3.8	100%
1983-84	58.9	40.1	1.0	100%
1984-85	72.6	27.4	0	100%

The cropping patterns of borrower farmers are changed in Aligarh district as shown in table 4.6 with the grant of agricultural credit and resultant increase in irrigation facilities, the area under high yielding varieties increased from 30.8 per cent in 1980-81 to 72.6 per cent in 1984-85. At the same time, the area under improved varieties and other crops decreased from 54.0 per cent to 27.4 per cent and 15.2 per cent to zero respectively during the same period.

Table 4.7

Changes in Cropping Pattern of Non-borrower Farmers in Aligarh District

(In %age of total cropped area)

Year	HYV	Improved varieties	Others	Total
1980-81	13.0	62.2	24.8	100%
1981-82	14.9	61.8	23.3	100%
1982-83	18.6	60.5	20.9	100%
1983-84	20.3	59.2	20.5	100%
1984-85	22.6	58.9	18.5	100%

When we compare the cropping pattern of borrower farmers with the non-borrowers, the contrast is revealing. The data presented in table 4.7 show that the area under high yielding varieties increased 13.0 per cent to 22.6 per cent in 1984-85 while the borrower farmers increased their area under high yielding varieties from 30.8 per cent to 72.6 per cent in the same period of the same district.

In table 4.8 it is clearly brought out that with the facility of agricultural loans together with increase in essential infrastructural requirements such

Table 4.8

Changes in Cropping Pattern of Borrower Farmers of Badaun District

(%age of total cropped area)

Year	HYV	Improved varieties	Others	Total
1980-81	30.0	56.2	13.8	100%
1981-82	38.2	50.3	11.5	100%
1982-83	45.3	49.4	5.3	100%
1983-84	58.0	41.0	1.0	100%
1984-85	70.9	29.1	0	100%

as increased irrigation schemes etc. The area under high yielding varieties increased from 30.0 per cent in 1980-81 to 70.9 per cent in 1984-85. During the same period, the area under improved varieties and other crops decreased from 56.2 per cent to 29.1 per cent and 13.8 per cent to zero respectively. Table 4.9 shows the cropping pattern of non-borrower farmers in Badaun District.

Table 4.9

Changes in Cropping Pattern of Non-borrower farmers of Badaun District

Year	HYV	Improved varieties	Others	Total
1980-81	11.9	64.1	24.0	100%
1981-82	12.8	65.4	23.8	100%
1982-83	15.4	62.0	22.6	100%
1983-84	19.2	60.5	20.3	100%
1984-85	21.8	59.0	19.2	100%

A comparative study of cropping pattern of borrower farmers with that of non-borrower farmers leads to important results. The data presented in table 4.9 show that the area under high yielding varieties increased from 11.9 per cent in 1980-81 to 21.8 per cent in 1984-85. But the area under improved varieties and others decreased from 64.1 per cent and 24.0 per cent in 1980-81 to 59.0 per cent and 19.2 per cent respectively in 1984-85.

Table 4.10

Changes in Cropping Pattern of borrower farmers in Faizabad District

(In %age of total cropped area)

Year	HYV	Improved varieties	Others	Total
1980-81	22.2	60.5	17.3	100%
1981-82	35.8	51.0	13.2	100%
1982-83	47.9	41.3	10.8	100%
1983-84	56.0	40.0	4.0	100%
1984-85	69.8	30.2	0	100%

In table 4.10 it is convincingly shown that an increase in financial assistance as well as irrigation facilities leads to a corresponding increase in the

the area under high yielding varieties from 22.2 per cent in 1980-81 to 69.8 per cent in 1984-85. During the same period, the area under improved varieties and other crops decreased from 60.5 per cent to 30.2 per cent and 17.3 per cent to zero respectively.

Table 4.11

Changes in Cropping Pattern of Non-borrower Farmer in Faizabad District

(In %age of total cropped area)

Year	HYV	Improved varieties	Others	Total
1980-81	10.3	64.0	25.7	100%
1981-82	11.8	63.0	25.2	100%
1982-83	14.5	61.0	24.5	100%
1983-84	17.0	60.0	23.0	100%
1984-85	19.2	58.0	22.8	100%

A comparison of cropping pattern of non-borrower farmers with that of borrower farmers is extremely meaningful and relevant in our study. The data presented in table 4.11 show that the area under high yielding varieties increased from 10.3 per cent in 1980-81 to 19.2 per cent in 1984-85. There has been only a meagre shift in the cropping pattern of non-borrower farmers and that too has been owing to irrigation facilities provided to them by their neighbouring borrower farmers or under different governmental schemes.

Table 4.12

Changes in Cropping Pattern of Borrower Farmer in District Basti

(In %age of total cropped area)

Year	HYV	Improved varieties	Others	Total
1980-81	21.3	59.6	19.1	100%
1981-82	32.2	52.6	15.2	100%
1982-83	43.0	45.6	11.4	100%
1983-84	55.2	36.7	8.1	100%
1984-85	68.9	28.1	3.0	100%

From table 4.12, it is evident that when agricultural assistance is made available to farm sector and irrigation facilities are also enhanced, there is a consequent increase in the area under high yielding varieties from 21.3 per cent in 1980-81 to 68.9 per cent in 1984-85. During the same period, the area under improved varieties and other crops decreased from 59.6 per cent to 28.1 per cent and

19.1 per cent to 3.0 per cent respectively.

Table 4.13

Changes in Cropping Pattern of Non-borrower Farmers in District Basti

(In %age of total cropped area)

Year	HYV	Improved varieties	Others	Total
1980-81	10.2	63.6	26.2	100%
1981-82	11.5	62.9	25.6	100%
1982-83	13.8	61.8	24.4	100%
1983-84	17.9	60.0	22.1	100%
1984-85	18.8	59.3	21.9	100%

When we compare and contrast the cropping pattern of non-borrower farmers with that of borrower farmers in district Basti. We get results that are important for our study. The data presented in table 4.13 show that the area under high yielding varieties increased from 10.2 per cent in 1980-81 to 18.8 per cent in 1984-85. In case of non-borrower farmers a slight shift has occured and that was made possible due to the irrigation facilities provided to them by the governmental agencies.

Table 4.14 shows the impact of bank finance on the average change in cropping patterns of borrower farmers in six sample districts of Uttar Pradesh.

Table 4.14

The Average Changes in Cropping Pattern of Borrower Farmers of Six selected Districts of Uttar Pradesh

(In %age of total average cropped area)

Year	HYV	Improved varieties	Others	Total
1980-81	30.22	55.25	14.53	100%
1981-82	41.16	49.46	9.38	100%
1982-83	51.05	43.45	5.50	100%
1983-84	63.12	34.53	2.35	100%
1984-85	75.34	24.16	0.50	100%

It can be seen from table 4.14 that with the availability of agricultural credit which simultaneously led to improved agricultural facilities the area under high yielding varieties increased from 30.22 per cent in 1980-81 to 75.34 per cent in 1984-85. During the same period, the area under Improved varieties and other crops decreased from 55.25 per cent to 24.16 per cent and from 14.53 per cent to 0.5 per cent respectively. It is evident from this table that the greater average is covered by high yielding varieties which clearly proves that agricultural financing by banks has led to the adoption of new technology in the farming operations of above selected districts of Uttar Pradesh.

Table 4.15

The average changes in Cropping pattern of non-borrower farmers of six selected districts of Uttar Pradesh

(In %age of total average cropped area)

Year	HYV	Improved varieties	Others	Total
1980-81	13.91	62.68	23.41	100%
1981-82	15.71	61.71	22.58	100%
1982-83	18.73	60.66	20.61	100%
1983-84	21.60	59.40	19.00	100%
1984-85	23.96	58.16	17.88	100%

The changes that have taken place in the average cropping pattern of non-borrowers farmers of six sample districts of Uttar Pradesh are also relevant in examining the role of agricultural financing. The data shown in table 4.15 make it clear that the area under high yielding varieties increased from 13.91 per cent to 23.96 per cent during the period 1980-81 to 1984-85. A comparison of these two tables shows that the cropping pattern of non-borrower farmers has undergone a minor change in comparison to borrower farmers. And even that minor change has occured probably because of irrigation facilities offered by the neighbouring borrower farmers or under the government irrigation schemes.

It is important that the borrower and non-borrower farmers had more or less identical cropping pattern in the base year 1980-81. But in subsequent years, thanks to bank credit, borrower farmers have responded to green revolution programme more quickly than non-borrower farmers. While borrower farmers preferred to grow more of high yielding varieties of wheat, rice and hybrid maize which responded to higher level of fertilizers and irrigation, the non-borrower farmers continued to cultivate larger areas for improved and other varieties of rices, wheat and maize. Therefore, it can safely be concluded that the cropping pattern of borrower farmers would not have moved in favour of the adoption of new technology in such a pronounced manner, had it not been financed by the nationalised banks.

Changes in the level of Productivity

The impact of bank loan is reflected on the change in productivity levels. Any type of agricultural loan has to help the farmers to earn higher income either through a change in the scale of operation or through improvements in productivity or both. In comparing the productivity levels of borrower farmers with those of non-borrower farmers, the role played by weather and fertility of the soil should be kept in mind. The affect of weather or crop yields would be the same for borrower and non-borrower farmers in the same agro-climatic conditions. Regarding soil characteristics, it should be pointed that they may vary from farm to farm within the same agro-climatic conditions. But the differences in yield rates of crops between the two groups of farmers would mainly be on account of the differences in the extent and method of technology adopted and the quality of inputs used.

In order to comparatively examine the actual field situation, the yield-rates of crops grown have been computed in tables, 4.16 and 4.17. The tables reveal that while the yield-rates of high yielding varieties in respect of non-borrower farmers have shown a slight upward trend, the borrower farmers have realised a substantial increase in yield. In case of improved varieties, both the groups of farmers have achieved a substantial improvement in yield, but the rise in yield realised by the borrower-farmers remained higher than that of non-borrower farmers. The borrowers, by and large, managed to improve their productivity to a higher level. Only in case of other crops, both of them have trodden the same path. Thus other things remaining the same, it can safely be concluded that the bank financing played a leading role in increasing the crop productivity of borrower farmers.

Table 4.16

Estimated Yield Per Acre for Sample-Farmers

(Paddy in Quintals)

Year	HYV		Improved-varieties		Others	
	Borrower	Non-borrower	Borrower	Non-borrower	Borrower	Non-Borrowers
1980-81	20 (100)	17 (100)	17 (100)	14.5 (100)	14.0 (100)	13.5 (100)
1981-82	23.5 (117.5)	18.0 (105.8)	19.5 (114.7)	15.0 (103.4)	14.5 (103.5)	13.5 (100)
1982-83	25.0 (125)	20.0 (117.6)	22.0 (129.4)	17.[illegible] (117.2)	15.0 (107.1)	14.5 (107.4)
1983-84	28.0 (140)	21.5 (126.5)	22.7 (135.5)	18.0 (124.13)	16.5 (117.8)	15.7 (116.3)
1984-85	30.0 (150)	23.0 (135.3)	25.0 (147)	20.0 (138)	17.[illegible] (121.4)	16.2 (120.0)

Note: Figures in brackets indicate percentage over the base year 1980-81 .

Table 4.17

Estimated Yield per Acre for Sample Farmers

(Wheat in Quintals)

Year	HYV		Improved varieties		Others	
	Borrower	Non-Borrower	Borrower	Non-Borrower	Borrower	Non-Borrower
1980-81	17.0 (100)	14.0 (100)	14.0 (100)	12.0 (100)	11 (100)	11 (100)
1981-82	18.7 (110)	14.5 (103.5)	15.2 (108.6	12.5 (104.1)	11.5 (104.5)	11.5 (104.5)
1982-83	20.0 (117.6)	15.0 (107.1	16.5 (117.8)	13.8 (115.0)	12.0 (109)	11.5 (104.5)
1983-84	21.5 (126.4)	16.3 (116.4)	17.0 (121.4)	14.5 (120.8)	13.0 (118.1)	12.0 (109)
1984-85	23.0 (135.3)	17.0 (121.4)	18.5 (132.1)	15.0 (125.0)	13.5 (122.7)	13.0 (118.1)

Note: Figures in brackets indicate percentage over the base year 1980-81.

The tables clearly reveal the fact that a rise in production is mainly dependent on the application of inputs, which in turn, is dependent upon the availability of credit on easy terms. This indicates the vital impact the agricultural credit has on the productivity of farms.

Per Acre Net Income of Sample Farmers

If we want to understand the impact of bank loan on farmers, we need to assess their per acre net income. In keeping with this, the per acre income of each farmer has been computed on the basis of annual production in a year and the price realised for the same. It involved assessing gross income from farming and also the cost of crops grown by each farmers.

The various elements included in estimating cost of production of crops are (i) Cost of inputs like seeds, fertilizers, manures and pesticides (ii) Wages on hired labour (iii) Irrigation charges (iv) Interest on loans and (v) Other charges on hiring of bullocks/tractors, farm machinery.

The cost of cultivation has been calculated on average basis. The estimated cost of production of one acre was deducted from the estimated gross income of one acre and multiplied by the total cropped acreage of the particular area to get net total income.

In table 4.18, the net income of an average small, medium and large farmer borrower and non-borrower is given from 1980-81 to 1984-85. Medium and large farmers have drived more benefit compared to small farmers. From the above table it appears that medium farmer, due to its operational size has more favourable

Table 4.18

Estimated Per Acre Net Income of an Average Borrower/Non-borrower Farmer

(in Rs.)

Year	Small farmer Borrower	Small farmer Non-borrower	Medium Farmer Borrower	Medium Farmer Non-borrower	Large Farmer Borrower	Large Farmer Non-borrower
1980-81	1100	950	1500	1500	1440	1350
1981-82	1100	1000	1670	1425	1600	1560
1982-83	1280	1160	1720	1550	1710	1690
1983-84	1400	1200	1900	1650	1850	1800
1984-85	1650	1350	2050	1740	2040	2000

impact as it has more developed techniques and equipments of agriculture. As regards additional income realised by each class of borrower farmers; all the classes of farmers have benefited from the bank loans.

Utilisation of Incremental Income by Borrower Farmers

The utilisation of incremental income by the borrowal farmers is highly revealing. as demonstrated by table 4.19. It reveals interesting information. It is evident from this table that borrower farmers are not fascinated by traditional items of transaction and business. For example, they are not so much interested in the purchasement of land and or construction of buildings. Quite a major part of the incremental income was spent on agricultural development. The savings amounted to 18% of the total incremental income. The conspicuous consumption added upto 17% of the total incremental income. 10% of the total borrower farmers spent their incremental income on standard of living and the same percentage was spent on purchase of land. The construction of buildings consumed 9% of the total incremental income of the borrower farmers, whereas the agricultural development accounted to 30 per cent of the incremental income.

Table 4.19

Utilisation of Incremental Income by Borrower Farmers

Sl.No.	Sources of Utilisation	No. of farmers	Percentage of total
1.	Standard of living	30	10
2.	Purchase of land	30	10
3.	Construction of Building	27	9
4.	Conspicuous consumption	51	17
5.	Savings	54	18
6.	Agricultural development	90	30
7.	Others	18	6

Conclusion

The survey data reveals that the borrower farmers have achieved substantial increase both in terms of productivity and net income per acre. The full impact of this increase can be measured and understood when we compare and contrast it with stagnation in crop productivity in the case of non-borrower farmers. The reasons are obvious. In case of borrower farmers there was a significant improvement in irrigation facilities. There was also substantial rise in the use of fertilizers and other inputs and all this led to marked improvement in crop productivity. It can, therefore, be safely concluded that Bank loans have significantly contributed to the development of agricultural production in case of borrower farmers.

It is therefore, imperative that a systematic and integrated agricultural development programme be devised and implemented throughout the length and breadth of Uttar Pradesh. In order to Usher in a truely agricultural revolution, maximum coordination should be achieved between extension agencies and financial agencies. That will go a long way in ameliorating the economic conditions of long-neglected Indian farmers.

Chapter V

Problems of Farmers (Survey Results)

Part I

<u>General Problems</u>

1. Natural Hazards
   - (a) Floods
   - (b) Drought
   - (c) Frost
   - (d) Outbreak of Epidemics
   - (e) Soil Erosion
   - (f) Usar
   - (g) Hailstorms
2. Lack of Irrigation Facilities
3. Inadequate Power Supply
4. Rotation of Crops
5. Inadequate Input Supply and Improper Use.
6. Mechanisation
7. Lack of Credit Facilities
8. Land Reforms & Consolidation of Holdings
9. Defective Marketing System and Storage
10. Price Support.

Part II

<u>Specific Problems</u>

1. Findings and Discussion
2. Conclusion

Chapter V

Problems of Farmers (Survey Results)

In this chapter attempt has been made to discuss the various problems faced by farmers in obtaining bank loans. This Chapter has been devided into two parts. In the first part, the general problems have been discussed and in the second part of this chapter, the specific problems faced by farmers in getting loans from banks have been identified with the help of a survey carried out.

Part I

General Problems

Agriculture is the backbone of our country. It not only helps to sustain the ever increasing population but it is capable of sustaining our national economy. There is no denying the fact that about 70% of the total population of our country is dependent upon agriculture and allied occupations but this large section of the population is poverty-striken. Serious efforts are needed to lift this section of population above the poverty line.

Majority of the farmers in our country are small farmers having small and marginal size of holdings.

Most of them can not afford costly inputs from their own savings nor do they get credit easily from the government or any other sources. Mostly they make their approach on non-institutional sources which are easy and quick to get but they do more harm than good to them in the long run.

Among the general problems, the main factors which come in the way of agricultural production in the country are discussed below:

(1) <u>Natural Hazards</u>

(a) <u>Floods</u>

We have a lot of experience of the grim situation arising out of floods in various parts of the country during mansoon season, many rivers overflow and damage the crops, houses and cattle. Also there is a heavy toll of human lifes due to flood and drought. The flood affected area pose a serious challenge to the economy. As per the data collected by the government, more than 16 million acres of land is affected every year on account of flood in the country and the estimated losses come to about Rs.100 crores annually. Moreover, additional burden running into thousands of crores is borne by a poor country like India in order to provide relief to the flood affected areas.

(b) Drought

This is a serious problem for the farmers because some times in some parts of the country there is rainfall at all and nearly 30% of the area receives only less than 75.0 mm of the rain which required additional irrigation supply for the agriculture. The lack of water is felt in the arid and semi-arid tracks of the country. Sometimes the variations in the rainfall in quantity and time also create problems for the Indian farmers and act as barriers in agricultural development in the country. It has also been experienced commonly that various parts of the country receive less than half of the normal rainfall and in some areas one forth of the normal. This creates a serious situation in the country resulting in the shortages of goods and an increase on the prices of inputs. This year too we are facing similar situation due to drought.

(c) Frost

In northern parts of the country, a serious change in the climate has been observed, i.e.

occurance of frost in winter which damages the crops of arhar, pea, gram and potato etc. and it reduces foodgrains production in a sizeable manner. However this problem may be solved by providing adequate supply of water for irrigation purpose.

(d) Outbreak of Epidemics

The pests and diseases also tend to damage the crops which occur almost every year. The main reason for this set back is the ignorance of the farmers as they consider it as God given and do not take the necessary precautions and prefer to remain as silent spectators. For the safeguard of the crops effective measures need to be taken by the farmers as well as the State Government. In this regard farmers must be educated and trained in the techniques of plant protection and eradication of pests and diseases from the agricultural land.

(e) Soil Erosion

This is also one of the major factor affecting agriculture and due to the soil erosion process many parts of the land every year are changed from fertile into marginal or sub-marginal land. Due to this problem, sometimes the land becomes uncultivable and it has been experienced in the past in our country. Land is a valuable asset of the nation and this regard it may be pointed out that soil conservation measures need to be adopted by the government. Of course, the government has taken certain steps in this direction but they are insufficient to deal with the problem and more efforts are needed to tackle the situation.

(f) Usar

This is another problem. Many portions of the land in our country are lying useless and unfertile and the government should find out ways to make it cultivable. As per the records of the agricultural department it is estimated that about 33% of such lands may be made cultivable by adopting the soil management practices. However, this is a long term plan and it takes time to achieve success.

(g) Hailstorms

Hailstorms also cause a great damage to the crops. They can tackled to a great extent by proper forecasting systems and prior warning which may lead to the protection of crops. In this way a serious damage to the crops may be averted.

2. Lack of Irrigation Facilities

It is an open fact that irrigation is the key to application of modern agricultural technology. According to one estimate, due to limited resources and measures about 48.5 per cent of gross cultivable land receives irrigation facilities in Uttar Pradesh in 1983-84. This requires considerable advance planning for divising programmes to irrigate all cultivable land in the state.

3. Inadequate Power Supply

Many rural areas do not get adequate power supply for irrigation purposes for setting up tubewells and pumping sets though this sector requires priority. Power supplies to the industrial areas and agricultural sector is inadequate. Keeping in view that agriculture is the backbone of the economy, top priority should be given to farmers in respect of power supply for agricultural purposes.

4. Rotation of Crops

This is another important aspect of the problem. With the adequate supply of water, and provision of various useful process for the farmers, the rotation of crops is also necessary, so that the farmers may double their income through the rotation of crops. With the availability of irrigation facilities, the high value crops should be substituted for lower value crops and adoption of better technology should bring better returns per acre for the farmers.

5. Inadequate Input Supply and Improper Use

Agricultural production can be increased by the use of high yielding varieties of seeds, proper application of mixed fertilizers as well as new scientific techniques and rational use of means and material. In the past, crops were badly damaged by the pests and insects and the use of pesticides was not known to the farmers. Now-a-days the use of pesticides is extensively made by the farmers and all efforts must be made to supply basic inputs at reasonable prices to the farmers to ensure rapid growth in agricultural production.

6. Mechanisation

With the availability of modern techniques of production, the intensive cultivation practices are necessary and useful for multiple cropping but this practice should be adopted efficiently at the

the proper time. With growing industrialisation and migration of labour from rural to urban areas, the trend towards mechanisation has been increasing. The economic planners and policy makers have to pay attention to this important aspect which could solve many problems of the farmers. With the application of new technology, the Indian farmers could carryout the agricultural operations more effectively, timely and cheaply.

7. Lack of Credit Facilities

Money is the principal factor for all business operations. Likewise the capital constraint cripples the farmers and it checks input and output both. India is a country of small holdings (i.e. below five acres of land) and these small farmers can not provide full employment and generate resources. The majority of this class of farmers are either marginal or sub-marginal and this class is deprived of the resources so essential for the growth of production and their production is in the low value crop category. Due to the above mentioned problems credit facilities are not available to them in relation to their requirements for the production. Whatever credit facilities are available to them, they are inadequate in relation to their demand. As a result they become permanent indebtors, sometimes small farmers avoid to take the risk of additional investment for the fear of natural hazards. Ultimately the economy gets stagnant and the general public suffers.

In practice it has been observed that when the poor farmer knocks the door of moneylenders they charge a high rate of interest and try to suck his blood and whatever they earn in the farming is paid to the moneylenders and they continue to remain poor and become poorer. The credit supplied by the cooperative societies and commercial banks is generally insufficient and they are compelled to borrow money from the moneylenders.

It is the task of planners of this country to consider all aspects of the problem and evolve an action plan which stimulates production. Besides, capital is also needed for making agricultural inputs available to farmers and also for creating infra-structure facilities. Ways of mobilising more capital for agriculture particularly from nationalised banks have to be fully exploited. Credit facilities and practices have to be improved so that farm credit is utilised for productive purposes.

8. Land Reforms & Consolidation of Holdings

Land reforms and consolidation of holdings are highly important. A farmer who has his holdings at one place can carryout his operations better than the one whose holdings are scattered all over the village. Therefore all efforts must be directed towards land reforms and consolidation of holdings.

9. Defective Marketing System and Storage

The defective marketing system and lack of storage facilities is another constraint faced by the poor farmers. The actual producer does not get the full benefit of his excess production which goes in the pocket of middlemen or traders who exploit them in many ways in the form of many irregular deductions and malpractices.

10. Price Support

This is another crucial issue. The price of the agricultural production is not fixed by the farmers but by the government agencies or traders. The state should adopt a fair price policy to encourage the farmers to produce more. Also efforts must be made to achieve increase in productivity through intensive cultivation methods in assured irrigated areas by extending high yielding varieties programme. The principal aim is to maximise income per acre by adopting technological improvements and careful advance planning and to make optimal use of available resources. This would mean the introduction of more profiting and productive cropping method in order to raise the per acre output of the farmers. Besides the basic need of agriculture is supply of sufficient inputs like high yielding varieties of seed, fertilizers, pesticides, and adequate supply of power for intensive development.

Also the right technical advice and effective marketing arrangements essential alongwith the long term price support policy to encourage the small farmers who were neglected in the past. They must develop a sizeable marketable surplus by increasing the productivity of their land. This can go a long way to make the country prosperous and strong.

Part II

Specific Problems

In this part an attempt has been made to identify the various problems faced by farmers in getting loans from Banks with the help of questionnaire and interviews. As our study is mainly concentrated on Nationalised Banks, we have discussed the problems of those farmers who are getting loans from nationalised banks in Uttar Pradesh.

Finance is an essential requirement of every productive activity and agriculture is no exception. Since majority of our farmers have very small size of holdings and production frequently suffers from the vagaries of nature, the capacity of the farmers to save and invest in agriculture is very low. Programmes for the development of irrigation, soil conservation, mechanisation and increased use of inputs like fertilizers, seeds and pesticides, therefore, require substantial credit support and as such they must be substantially supported.

The need to carry on farming on modern lines becomes all the more important with the introduction of high yielding varieties which give best results when accomplished by adequate irrigation, power supply, fertilizers and pesticides. This emphasises the need to provide fair and easy credit to farmers. The lending institutions must, therefore, identify the multifarious problems faced by farmers, so that the obstructions are removed and the flow of credit is improved. No economy is free from problems, only the magnitude of the problems vary. Although the policy-makers have realised the dynamic role of credit, the problems concerning evolving of effective credit policies and their implementation have yet to be solved. These policies can properly be evolved only if they are based on the knowledge and experience of the real situations regarding the farm credit.

The main aim of this chapter as earlier stated is to identify the problems of farm financing from the point of view of farmer (Participants and non-participants). For this purpose 300 participant borrowers and 300 non-participant borrowers were selected from the six sample districts of U.P. in the ratio of 3:2:1 for small, medium and large farmers respectively. To find out the problems of non-participants farmers, separate questionnaire was prepared and the farmers were asked to mark reasons why did they not avail any loan facility ? In some cases personal interviews were also conducted.

Findings and Discussion

In this chapter an attempt has been made to highlight the identify of views among participants and non-participants. An analysis of table 5.2 may be of much use to the bankers for revamping their lending policies towards the farmers. To ensure their success, the banks will have to create a better image in the minds of farmers. The picture summed up below in table 5.1 and 5.2 may not be a complete catalogue of reasons for non-participants, but they do provide an idea about the image and operations of the banks from the view point of farmers. By analysing table 5.1, it can be seen that only 20% of farmers have no problems in getting bank loan. It mean 80% of farmers in our sample do have some complaints regarding the bank loan.

The table also reveals that a large section of participating borrowers (28 average, 36.% of small farmers) as well as non-participating borrowers (29.33% average, 38% of small farmers) reported that the process of getting loan is very cumbersome. The banks have evolved a clumsy procedure of lending. It is a tedious job to apply for loan and to persue it till it is finally sanctioned. Frequent visits to banks involve unwarranted expenditure and vexation which compel some of the farmers to leave the loan application half way. The late Prime Minister Smt. Indira Gandhi rightly remarked that "the procedure of getting agricultural credit is complicated one. There are so many forms and formalities which have to be fulfilled and I will also hesitate to fulfil these". This underlines the need for simplifying the procedure of bank lending.

The second main problem of participant borrowers (23% average, 34% of small farmers) is to obtain records from the government offices. Due to delaying procedures the farmers feel greatly harrassed. It emphasises the need for efficient administration and strengthening the coordination between government agencies and the banks.

The other problem of participant farmers (15% average, 20% of small farmers) is sanctioning of inadequate amount of loan. It is also one of the striking problems which needs modification of the scale for granting loan to an individual farmer. Lack of knowledge of credit availability for non-participants (18.33% average, 30% of the small farmers) and of rules and regulations pertaining to credit for participants (13.67% average, 24% of small farmers)

Table 5.1

Problems Faced by Participating Farmers

Sl.No.	Items	No. of farmers Small	Medium	Large	Percentage Small	Medium	Large	Average of %age
1.	No Problems	12	20	16	8	20	32	20.33
2.	Problems in taking record from Govt. offices	50	25	5	34	25	10	23.00
3.	Lack of Security	23	-	-	16	-	-	5.33
4.	Lack of know-ledge of rules & regulation	36	13	2	24	13	4	13.67
5.	Cumbersome process of getting loan	55	28	10	36	28	20	28.00
6.	Registration of land	15	8	3	10	8	6	8.00
7.	Non-cooperation of bank staff	33	10	3	22	10	6	12.67
8.	Amount sanctioned for credit not adequate	30	17	4	20	17	8	15.00
9.	High rate of interest	15	9	2	10	9	4	7.67

Number of Small Farmers	150
Number of Medium Farmers	100
Number of large farmers	50
Total number of participant farmers	300

Table 5.2

Reasons for Non-Participation

Sl. No.	Items	No. of farmers Small	Medium	Large	Percentage Small	Medium	Large	Average of %age
1.	No need for loan	9	10	15	6	10	30	15.33
2.	Lack of Security	24	5	-	16	5	-	7.00
3.	Lack of knowledge credit availability	45	15	5	30	15	10	18.33
4.	Cumbersome process of getting loans	57	30	10	38	30	20	29.33
5.	Non-cooperation of bank staff	39	18	4	26	18	8	17.33
6.	Long distance	24	7	2	16	7	4	9.00
7.	High rate of interest	15	8	3	10	8	6	8.00
8.	The repayment periodicity is too short	15	10	4	10	10	8	9.33
9.	Others	9	5	2	6	5	4	5.00

Number of small farmers	150
Number of Medium farmers	100
Number of large farmers	50
Total No. of non-participant farmers	300

is also a common problem which shows that the development of banking habits in rural areas is not adequate in the state.

The need of the time is that more and more propaganda about the bank participation in agricultural development and various schemes launched by banks should reach the simple and innocent farmers in remote areas.

The next common problem faced by participants (12.67% average, 22% of small farmers) as well as non-participants (17.33% average, 26% of small farmers) is of non-cooperation of bank staff. This shows lack of adaptability and cooperation on the part of bank staff. There should be a complete change from urban outlook to rural outlook. This is the need of today. It is the matter of great satisfaction that government is paying adequate attention to this problem.

Table 5.2 shows that the only 15.33% of the non-participants do not have the need for credit. It means that 84.67% non-participants do feel the need for bank credit but due to their poor socio-economic conditions and the problems discussed above, they could not get any loan from banks. Therefore, banks should take effective measures to encourage farmers for participation in rural banking activities.

The participant and non-participant borrowers were asked to specify about the rate of interest charged by banks. 7.67% participants (10% small and 9% medium) and 8% non-participants (10% small, 8% medium and 6% large farmers) complained about the high rate of interest charged by nationalised banks. It means, the farmers specially the small ones need Bank loans at a lower rate of interest.

Lack of security amongst the small farmers, participants as well as non-participants is also an important reason for slow pace of agricultural credit. Long distance and the short period of repayment are other problems of non-participants farmers. The Government should pay more attention towards expansion of branches in rural areas to mobilise savings and attract deposits from rural areas.

Considering all the aspects of the problems, the non-participants were asked to specify as to which source they preferred and why ? Majority of the small farmers preferred moneylenders on account of their traditional pattern and relationship. In order to meet their requirement, they approach the money-lenders easily and quickly. Though banks do provide credit facilities but they are insufficient and time bound and the moneylender is available when the need arises irrespective of the time and period. The money advanced by banks and cooperatives is bound to be spent on agricultural purposes only but the money borrowed from the moneylenders is free from such conditions.

Conclusion

The development of agriculture depends greatly upon the rainfall which is a gamble from various aspects. Sometimes there is famine and drought, sometimes insufficient rainfall, sometimes flood, these elements are devastative and ruinous. The other natural casualities such as hailstorm, storm, frost and many kind of insects also damage the crops. The increase in production under such conditions is not assured, but damage and devastation can occur expectedly which cripples the rural economy.

Efforts should be made to provide more and more irrigation facilities, improved seeds, scientific means and methods to Indian farmers but despite that they are still far behind than their counterparts in other developed countries. The main reason behind this drawback is that some Indian farmers have not changed their outlook in respect of modern techniques and improved seeds. Though modern techniques can undoubtedly lead them to prosperity.

Indian farmers do not avail the opportunities provided to them due to their orthodox outlook and commercial mentality. In some cases it has been noticed that they resell the fertilizers provided to them at higher rates. Irrigation facilities are an essential pre-requisite along with improved seeds, fertilizers etc. In the absence of irrigation facilities a single crop system can be operated which is uneconomical and unprofitable.

The poor Indian farmer also needs a substantial amount of cash credit to meet his requirements of working capital, including part of the normal needs of his family in the pre-harvest season and unavoidable social obligations. Since the need for such working capital has not been fully met by the nationalised banks and other institutional credit agencies so far, the small farmers have not been able to escape from the clutches of the moneylenders. The commercial banks should take firm measures in this respect. The need for working capital will increase rapidly once the small farmer starts modernising the process of agriculture.

At the same time, effective steps need to be taken to develop the banking habits among the small farmers so that they keep bulk of their surpluses in banks. And so that they get adequate loans from the bank when they need it and make prompt repayments as they fall due. This will lead to greater mobilisation of savings for the benefit of all concerned.

However, when we compare the participant or borrower farmers with the non-participant or non-borrowers farmers in the State of Uttar Pradesh, we conclude that nationalised banks have not been able to project themselves as the main institutions offering agriculture assistance programmes. It is also a fact that though there are some planned and well-throughout lending schemes offerred by various banks but there is no proper response on the part of potential loanees or farmers. The poor illeterate farmers must be educated by the banking agencies with regard to the purpose and benefits of loans as well as the extent to which they can offer various types of agricultural finance. The majority of the farmers are illiterate and they simply can not grasp the significance of various schemes offered to them. There should be earnest effort in terms of adult education programmes through which the importance and awareness of loan facilities to the farming sector can be projected and enhanced.

Besides the procedural bottlenecks should be simplified. Only then farmers can avail various facilities offered to them. The concerned government quarters and departments should supply relevants records and information promptly and without bureau-cratic redtapism. The urban-oriented attitudes of governmental agencies and bank's staff is also responsible for this state of affairs. Such attitudes should be changed as far as possible for the larger interest of the society. What is needed is a rural oriented programme of agricultural credit which is planned, effectively implemented and brought to fruit through committed staff who have first hand experience of rural population.

Hence, a coordinated effort is needed for the successful implementation of farming development programmes. The problems of the farmers should become the centre piece of the whole effort. The needs and capabilities of farmers need to be taken into consideration. The banks and the farmers should jointly carry out the implementation of different schemes. There cannot be a pre-conceived theorising of banking loans. The whole programme has to be pregnantically implemented, if we are really interested in agricultural transformation and bringing about a green revolution in the country.

Chapter VI

CONCLUSIONS AND SUGGESTIONS

Conclusions

The importance of agriculture is maintaining and sustaining the economic infrastructure of India can not be overstressed. India is primarily an agricultural country, though, of late, it is making rapid strides in the industrial sector also. But the fact that seventy per cent of India's population is employed in agriculture or agro-based industries makes agriculture, even now, the backbone of Indian economy. However, the shortfalls in agricultural production, due to draught and lack of irrigation facilities and other institutional factors, calls for immediate remedial measures to tackle the grim situation.

Bank nationalisation was a landmark in the post-independence history of India. The banks which were mainly oriented towards urban development and industrialisation played a negligible role in the development of agriculture. Therefore, it was strongly felt that farming sector and small scale industries, should be adequately financed through an expanded network of banking operations. Consequently, many leading banks were nationalised in July 1969 with a view to provide more credit facilities to agricultural sector to bring about rural development. India is predominantly a land of small-size farmers and tillers. It is, therefore, necessary that the small-size landholders be brought out of their centuries-old poverty, illiteracy and stagnation. More facilities of agricultural credit should be extended to them by the nationalised banks. In fact, there is a close relation between the development of Indian economy and Indian agriculture on the one hand and development of Indian agriculture and the development of small-size farmers, on the other hand, Indian economy cannot develpp without the development of Indian agriculture and Indian agriculture cannot develop without the upward mobility of small-size farmers.

The present study was undertaken with the explicit objective of examining the pattern of financing of small and medium sized farms by nationalised banks, in some selected districts of U.P., identifying the problems faced by small and medium sized farmers in getting finance from nationalised banks, and suggesting corrective measures to tackle the problems faced by small and medium farmers who form the bulk of the Indian farming community.

The methodology adopted for arriving at conclusions in this regard was to personally contact small and medium sized farmers in some selected districts of U.P. to collect information about the pattern of finance, impact of finance and problems faced the participant as well as non-participant farmers.

Nationalised banks have played a pivotal role in the development of agricultural sector in the recent past particularly in providing credit facilities to the down trodden sections of the society. Prior to nationalisation of banks, the lending policies of banks were mainly directed towards the industrial sector and the very approach of banking system was urban-oriented. It directly or indirectly mililated against the interests of farming community. The banks were nationalised with the objectives of effective credit planning, greater mobilisation of resources, control over monopolies, more efficiency and better service to customers.

The performance of commercial banks in terms of branch expansion and advances to agriculture sector has been quite impressive. The number of branches of these banks increased by 44,764 from 8,321 in July 1969 to 53,085 in March 1986. Of these, the nationalised banks, numbering 20, accounted for an increase of 21,008 branches followed by the Regional Rural Banks (12,629 branches) and State Bank Groups (8,326 branches).

As regards deployment of credit to agriculture, it is observed that there is a sizeable improvement in the performance of Commercial Banks. While in December 1969, the share of agricultural sector credit to total credit was 7.1 per cent it rose to 18.1 per cent in March, 1985.

However, notwithstanding the problems of implementation, the process of agricultural assistance has to be accelerated if the agricultural sector is to be set on the rails. Without a substantial increase in the assistance programmes farmers will not be able to meet the daily contingencies of agricultural profession, not to speak of facing the vagaries of weather and the lack of major infrastructural facilities like provision of fertilizers, manure, seeds and irrigation. Besides, it would be impossible especially for the small size farmers, to bring waste and fallow land under cultivation or to protect the land under cultivation without substantial agricultural credit. Therefore, the problems of implementation should be resolved through evolving reasonable criteria based on the availability of data and administrative experience gathered so far. It has got to be a trial and error method. The resolution of these problems and the evolution of sound criteria for implementing agricultural financing programmes will be a significant contribution of our planners towards the establishment of a socialist pattern of society in India.

With the advent of new technology the need for advanced agricultural technology is increasing day by day. It entails chemicals, fertilizers, pesticides, and high-yielding varieties of seeds. Such infra-structural inputs cannot be arranged merely by the personal savings of farmers. That is why there is an increasing demand for agricultural credit. The agricultural credit facilities play a catalytic role in bringing about a revolutionary change. A proper dose of farm-credit introduces technological sophistication apart from giving a healthy, competitive and commercial turn to agricultural production.

Agriculture financing consists of two types viz. direct and indirect. Direct finance includes short term loans to farmers for the purchase of production inputs, such as, seeds, fertilizers, pesticides, the cost of cultivation, labour charges, irrigation charges etc., medium/long term loans for development purposes like irrigation, purchase of tractors, improvement of land, development of plantations, construction of godowns and cold storage, purchase of pump sets etc. The indirect finance comprises loans to farmers through societies like PACS, FSS, LAMPS etc.

Among public sector banks, Nationalised Bank's share was 62.5 per cent and that of SBI Group 34.0 per cent in total agricultural leding in 1973 in U.P. As regards direct finance, Nationalised Banks share was 68.0% and SBI group. Share was only 29.2% in 1973. Out of the total short term agricultural loans advanced by the Commercial banks in March 1980, 27.7 per cent of the total beneficiaries belonged to small farmers but there share in total outstanding short term loan was 25.4 per cent. By 1982, the percentage of small borrowers was increased to 29.5 per cent and their share in total outstanding was also increased to 27.7 per cent. As regards the medium farmer borrowers, the percentage of beneficiaries increased from 16.4 per cent to 19.5 per cent while their share in total amount of short term loans decreased from 26.8 per cent in 1980 to 25.0 per cent in 1982.

In June 1983, 39.4% of the total beneficiaries belonged to marginal farmers but their share was only 28.2%. By 1984, though the number of marginal borrowers remained nearly the same and their proportion to total borrowal accounts also remained almost same. As regards small farmer borrowers, their number increased from 29% to 35.5% and their share in total amount of short term loans also increased from 27.6% in 1983 to 31.5% in 1984. The average amount of short term loans per borrowal accounts of marginal farmers slightly increased Rs.805 in 1983 to Rs.873 in 1984 while that of small farmer rose from Rs.1,073 to Rs.1,222 during the same period.

As far as medium/large farmers are concerned, by June 1983, 31.6% of the total beneficiaries belonged to the category of medium and large farmers but their share in total outstanding was 44.2%. By 1984, though the number of medium/large borrowers decreased from 31.6% to 30.3% and their proportion to total borrowal accounts also decreased from 44.2 to 39.6%.

The data show that much has been done in post-independent India with a view to uplift the small-size and marginal farmers.and to provide necessary wherewithal to these sections of Indian society which form the bulk of its population. The nationalised banks have done well in meeting out the capital and current expenditure of farmers by providing them agricultural advances. However, much needs to be done to ameliorate the conditions of agriculturists if India is to emerge on the industrial and agricultural map of the world. These banks need to make intensive and extensive surveys of the credit-needs across the length and breadth of U.P. in order to formulate appropriate plans and programmes for the upliftment of small-size and marginal farmers. The banks will really be making a significant contribution in the rejuvenation of agriculture if they adequately plan viable policies of agricultural assistance, for the importance of agricultural sector in the overall economic map of India cannot be overstressed.

When we compare both classes of farmers borrower and non-borrower we find that although both had nearly identical cropping pattern in the base year 1980-81, the borrower's achievement were more than the non-borrowers. The borrower farmers were able to achieve the target of grow more by high yielding varieties of wheat, rice and hybrid maize by the use of fertilizer, irrigation etc. and the non-borrowers were left behind by the borrower farmers in this respect. It can, therefore, be concluded that nationalised banks have made a good contribution in increasing farm production by the use of high yielding varieties.

To facilitâte comparison, the yield rates of crops grown were computed in the present work. It can be observed that the production of borrower farmer far exceeded the non-borrower one. In case of improved varieties, both the groups achieved a significant increase but the increase of borrower class is higher than the non-borrower.

It is, therefore, observed that the borrower secured substantial increase both in terms of productivity and net income per acre. The full impact of this increase can be measured and understood when we compare and contrast it with stagnation in crop productivity in the case of non-borrower farmers. In case of borrower farmers there was a significant improvement in irrigation facilities, in the use of fertilizers and other inputs which led to marked improvement in crop productivity. So it can be concluded that bank loans have significantly contributed towards the development of agricultural production in case of borrower farmers. It is, therefore, essential that a systematic and integrated agricultural development programme be devised and implemented throughout the length and breadth of Uttar Pradesh.

There are some General problems as well as specific problems faced by farmers in getting loans from nationalised banks. India is a country of poor farmers and most of them are unable to afford costly inputs such as high yielding varieties, fertilizers, pesticides etc. There are various general problems such as lack of rainfall, flood, drought etc. which are devastative for the Indian farmers. The other natural calamities such as hailstorm, frost, storm and many kinds of insects also damage the crops and this costs the farmers heavily.

Most of the Indian farmers are illiterate and their outlook is orthodox. Thus, they do not avail the various banking facilities provided to them. Effective steps need to be taken to develop the banking habits among farmers so that they get adequate loans from banks to meet their expenses of farm operations.

In rural areas power supply is not adequate for irrigation purposes. In the absence of adequate irrigation facilities, a single crop system can be operated which is uneconomical and unprofitable. Modern agriculture techniques can not be used effectively without adequate power and water supply.

The price of agricultural products is not fixed by the farmers but by the government agencies or traders while the industrialists fix the price of their products with sufficient margin of profit. Government should form a committee consisting of the representatives of trade, industry, government and farmers to examine the issue of price of agricultural products.

The size of land holdings in U.P. is generally small and fragmented due to which modern implements and machinery can not be used economically. The consolidation of holdings is urgently needed and efforts should be made to combine small and fragmented holdings into a complete large size plot. This will facilitate the use of modern agricultural implements, save time of the farmers in supervising the crops and will help in resorting to multiple cropping.

Finance is the critical constraint for Indian farmers. All productive activities like farming, programmes for the development of irrigation, soil conservation, mechanisation and increased use of inputs like fertilizers, seeds and pesticides, require substantial credit support and as such they must be substantially supported.

The other main problems of participant and non-participants farmers were: cumbersome process of getting loan, difficulty in having records from government offices, lack of knowledge about the availability of credit and compliance of too many ruled and regulations regarding the availability of bank loans. Non-cooperation of bank staff is also a common problem faced by the participant as well as non-participant farmers.

Another problem of participant farmers was sanctioning of inadequate amount of loan. It is one of the striking problems which requires a modification of the scales for granting loans to individual farmers. Lack of knowledge about the availability of credit is also a problem for non-participant farmers. This shows that the development of banking habits in rural areas is not adequate in the state.

Suggestions

The process of providing agricultural credit needs to be streamlined. Deposit is the backbone of bank activities and bank should pay greater attention towards mobilisation of deposit in order to make the bank's business a success. The following steps needs to be urgently taken in this regard.

1) All possible steps should be taken to motivate villagers for greater savings. Deposits and credit disbursement should be increasingly interlinked and correlated. There should not be procedural impediments in the allocation of agricultural assistance. Also it is desirable that the business should mainly be translated in vernacular or local language. This will lead to a great appreciation and understanding of the problems faced by farmers. The interest rates should be rationalised. This will go a long way in facilitating mobilisation of deposits and allocation of credit facilities. In a developing country like India, it will help in diverting resources from non-organised sector to organised sector.

2) It will be in the fitness of things that each customer should possess a credit card duly signed and stamped by block and revenue authorities wherein a proper account of the customer land, the irrigation facilities available in the proposed land and his credit

worthiness are clearly mentioned. Such a mechanism will lead to minimisation of procedural delays and speedy disposal of agricultural credit.

3) There should be greater understanding between the farming community and the bank management to ensure optimum utilisation of credit facilities. There should be an organised effort in this direction. An agency on the pattern of an Insurance Company may be created with a view to bring about a greater measure of intimacy between the farmers and bank officials. The agents of the proposed agency should try to square out all the procedural problems that serve as dis-incentives to the prospective customers.

4) Sometimes it is observed that members of the farming community do not repay their loan instalments with in the stipulated time. This does not necessarily mean that the defaulter is necessarily dishonest. It may be that he is not able to repay his dues on account of non-utilisation of credit. It is, therefore, important that farmers should be properly monitoring be done in respect of utilisation of

credits. They should be educated in scientific agricultural activities. Farmers should be provided adequate inputs, storage and marketing facilities. If necessary, an Agricultural Advisory Council should be set up for the scientific and planned monitoring of agricultural development process.

5) It is suggested that agricultural credit programme shouldbe a trained and planned endeavour. Due to diversification of banking activities, it is difficult for the farmers to keep pace with changing technology for bringing about agricultural development. Therefore, facilities should be provided for proper training of credit-customers. Also the bank staff needs appropriate training to ensure their effective performance in various jobs assigned to them. The trainers must also possess the necessary skills and aptitude to carryout their responsibilities effectively.

6) All credit programmes should take an integrated view of the whole problem. The general conditions of Indian farmers are so appaling and pathetic that they utilise the productive credits toward off their day to day distress. So what was required to be invested in production is invested

in consumption. Therefore, any productive loan system should take into consideration the daily needs of farmers as well as their consumption pattern. Otherwise the whole production development system will lead farmers back into the net of traditional moneylenders.

7) There should be greater coordination among public sector banks in the disbursement of agricultural credit. Public sector banks should be managed by efficient personnel dedicated towards achieving the goal of socialist society based on economic growth with social justice.

8) Nationalised banks should establish in expanded network of branches in the rural areas. These branches should have a rural orientation and cater to the needs of small farmers. It is, therefore, imperative that banking activities should spread out into the length and breadth of the state so as to expand the agricultural assistance programme as widely as possible.

9) To make the agricultural development programme a success, there should be a vigorous propaganda machinery to propagate the aims and objectives of

governmental credit policies. In fact, the farming community is generally ignorant about the launching of new credit schemes by the banks. Therefore, suitable cinema slides and TV documentaries should be prepared with a view to educate and inform the prospective customers about credit schemes available to them.

10) The procedure for scrutinising the loan-application and other formalities should be simplified and standardised. The number of required documents should also be reduced to the minimum. The lending policies of banks should be uniformly implemented.

11) The banks should conduct surveys and studies concerning the impact of bank finance in selected towns and villages, so as to find out the number of people who are directly benefitted by the bank finance, in terms of increased earnings, standard of living etc.

It should, however, be stressed that no suggestions for effective implementation of any economic programme are fool-proof. There are many impediments, constraints and bottlenecks in the actual implementation of any development programme. Procedural delays and the problems of bureaucratisation and red-tapism may be found. The ego-classes and vested interests will always conspire to make a nonsense of any developmental scheme formulated with best of the intentions. We are indeed conscious of these inherent difficulties. built into the very texture of any human endeavour.

However, it is hoped that the above suggestions, if properly implemented, will go a long way in minimising, if not eliminating, the problems of implementation in the ongoing endeavour of agricultural development. Therefore, the nationalised banks, the Reserve Bank of India (RBI), National Bank for Agriculture and Rural Development (NABARD) and economic planners should take effective steps for the speedy and timely implementation of credit policies and for the simplication of procedural formalities. The banking sector should have a clear-cut policy-framework in order to make the credit operations a success. Otherwise, the farming community will go from bad to worse and this will ultimately affect the progress and economic performance of the entire nation.

APPENDICES

APPENDIX-1

QUESTIONNAIRE FOR PARTICIPANT FARMERS

The purpose of this questionnaire is to assess the impact of credit supplies on the Productivity of Farms and to identify the problems faced by farmers in getting loan from nationalised banks in U.P.

Name of Farmer : --------------------------------

Size of holdings : --------------------------------

Address : --------------------------------

------------- Dist. ------------

1. Give details of Cultivable land under different crops year-wise from 1980-81 to 1984-85

(in acres)

Name of the crop	1980-81 HYV	1980-81 Others	1981-82 HYV	1981-82 Others	1982-83 HYV	1982-83 Others	1983-84 HYV	1983-84 Others	1984-85 HYV	1984-85 Others
Paddy										
Wheat										
Maize										
Sugarcane										
Other crops										
1.										
2.										
3.										
4.										

2. Give details of the yield of different crops year-wise from 1980-81 to 1984-85.

(in quintals)

Name of the crop	1980-81 HYV	1980-81 Others	1981-82 HYV	1981-82 Others	1982-83 HYV	1982-83 Others	1983-84 HYV	1983-84 Others	1984-85 HYV	1984-85 Others
Paddy										
Wheat										
Maize										
Sugarcane										
Other crops										
1.										
2.										
3.										
4.										

3. Give per acre expenses/cost on different crops yearwise as under.

(Rs.)

Name of the crop	1980-81 HYV	1980-81 Others	1981-82 HYV	1981-82 Others	1982-83 HYV	1982-83 Others	1983-84 HYV	1983-84 Others	1984-85 HYV	1984-85 Others
Paddy										
Wheat										
Maize										
Sugarcane										
Others Crops										
1.										
2.										
3.										
4.										

4. Give details of utilization of the loan sanctioned to you.

	Purposes	Date of Expenses	Amount of Expenses
i)	For the purchase of cattle		
ii)	For the purchase of seed or fertilizer or insecticides		
iii)	For irrigation purposes		
iv)	For the purchase of agricultural implements		
v)	For cultivation of fallow land		
vi)	For releasing mortgaged land		
vii)	For land reform		
viii)	For meeting past loans		
ix)	For others		

5. What benefit did you drive from the utilization of loan ?

(a) Increase in production

(b) Increase in Income

(c) Increase in saving

(d) Increase in Standard of living

(e) In What way the incremental income was utilized.

6. What were the reasons for delay in the repayment of loans ?

(a) Destruction of crops due to flood, drought and other seasonal reasons.

(b) Excess expenditure on marriages and other social function

(c) Reduction in the prices of corn

(d) Excess in medical and other contingent expenses

(e) Price policy of the government in regard to crop.

(f) Other reasons

7. Did you face difficulties in having bank loan ? If so, what were the reasons ? Please mention in order of priority.

(a) Cumbersome process of getting loan

(b) Compliance of too many rules and regulations.

(c) Delay in the payment of instalments

(d) Problem to offer as mortgage

(e) Amount sanctioned for credit is not adequate

(f) Non-cooperation of bank staff

(g) High rate of interest

(h) Others

8. Whether the transport facilities for transporting your produce to market are satisfactory ?

Yes----------- No ----------

9. Whether proper storage facilities are available in your area/village/town ?

Yes--------- No ---------

10. Please give suggestions for simplification, relaxation or improvement in rules and practices in regard to bank lending to agriculture....

Thank you very much for your help and cooperation.

APPENDIX-2

QUESTIONNAIRE FOR NON-PARTICIPANT FARMERS

The purpose of this questionnaire is to compare and contrast the productivity of participant and non-participant farmers and to identify the reasons. Why did they not avail any loan facility.?

Name of farmer : --------------------------------

Size of holdings : --------------------------------

Address : --------------------------------

1. Give details of cultivable land under different crops year-wise from 1980-81 to 1984-85

(in hectares)

Name of the crop	1980-81 HYV	1980-81 Others	1981-82 HYV	1981-82 Others	1982-83 HYV	1982-83 Others	1983-84 HYV	1983-84 Others	1984-85 HYV	1984-85 Others
Paddy										
Wheat										
Maize										
Sugarcane										
Other crops										
1.										
2.										
3.										
4.										

2. Give details of the yield of different crops yearwise from 1980-81 to 1984-85.

(in Quintals)

Name of the crop	1980-81		1981-82		1982-83		1983-84		1984-85	
	HYV	Others	HYV	Others	HYV	Others	HYV	Others	HYV	Others
Paddy										
Wheat										
Sugarcane										
Other Crops										
1.										
2.										
3.										

3. Why did you not avail the loan ? (Please mention in order of priorities).

(a) No need for loan

(b) Lack of security

(c) Lack of knowledge of credit availability

(d) Cumbersome process of getting loan

(e) Non-cooperation of bank staff

(f) Long distance

(g) High rate of interest

(h) The repayment periodicity is too short

(i) Others

4. From which source you prefer to take loan and why ?

(a) Commercial banks

(b) Cooperative Societies

(c) Land Development Bank

(d) Money lenders

(e) Others

5. Give your suggestions to popularise bank loans

(a)---------------------------

(b)---------------------------

(c)---------------------------

(d)---------------------------

(e)---------------------------

Thank you very much for your help and cooperation.

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